Sanctions busted

What it would mean for SA

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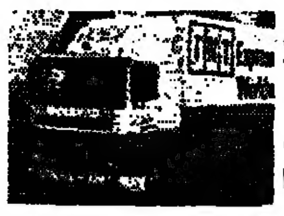

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FINANCIAL TIMES

Europe's Business Newspaper

THURSDAY SEPTEMBER 9 1993

D8523A

19 S African black commuters killed in street attack

About 10 gunmen shot dead 19 blacks and wounded 22 as they waited at a taxi rank in Wadeville, east of Johannesburg. The attack came the day after black and white negotiators reached agreement on setting up a transitional council that would help run the country until the nation's first multiracial election, planned for April. World re-examines Pretoria policy, Page 7

EC commissioner warns on low pay: The European Community's jobs crisis should not be tackled by dismantling EC social provisions or driving down wages, Padraig Flynn (left), EC social affairs and employment commissioner, said, as opinion among his Commission colleagues and the 12 member states leans towards labour market deregulation and lower labour costs. Page 18

Bosnia Moslems seek US backing: Bosnia's Moslem president Alia Izetbegovic prepared to take the case for the west to put pressure on the Croats and Serbs directly to the White House, in a desperate attempt to muster international support. Page 3

French railway acts on new system: France's national railway announced measures to restore its image as one of Europe's most efficient services after the introduction of a computer booking system, called Socrates, which created chaos. Page 18

Asea Brown Boveri, Swiss-Swedish engineering company, launched a range of advanced gas turbines in an attempt to move ahead in the fast-growing $12bn market for combined-cycle power stations. Page 4

Nagorno-Karabakh talks: Hopes rose for an end to the war between two newly independent former Soviet states for control of the Nagorno-Karabakh region, after Haydar Aliyev, acting head of state of Azerbaijan, offered talks with Armenian leaders. Page 3

Tokyo ponders economic boost: The Japanese government is considering a new public spending package and cuts in income tax to help keep the economy from recession. Page 7

Total, the French oil group, underlined its resilience to recession in Europe by announcing a modest decline in first half net profits from FFr1.9bn to FFr1.8bn ($316m).

Iri, the Italian state holding company, has abandoned plans for the trade sale of its majority stakes in Banca Commerciale Italiana and Credito Italiano in favour of public share offerings. Page 19; Brussels tightens Italian aid curbs, Page 3

Unilever, the Anglo-Dutch consumer products group, is to buy the ice cream business of Kraft General Foods, part of Philip Morris, the tobacco and food group, in a deal estimated at about $300m. Page 19; Lex, Page 18

Delhi acts on share upset: The Indian finance ministry acted to end uncertainty in the country's stock markets caused by an income tax probe into the affairs of Harshad Mehta, the broker at the centre of last year's Bombay securities scandal. Page 6

NTT, the Japanese telecommunications company, warned that pre-tax profits for the year to next March would fall 67 per cent to Y50bn ($472m) from a previously forecast Y150bn if it went ahead with a reduction in long-distance rates. Page 20

P&O, Peninsular and Oriental Steam Navigation Company, saw pre-tax profits almost doubled to £391.6m ($440m), but pre-tax profits before disposals fell 11 per cent to £80.1m from £151.2m. Page 19; Lex, Page 18

Baxter International, US hospital supplier, warned that its third-quarter earnings would fall below last year's $148m, or 53 cents a share. Analysts had predicted earnings of more than 57 cents. Page 19

Carnaudmetalbox (CMB), Anglo-French packaging group, saw a 7 per cent fall in first-half net profits to FFr509m ($89.8m). Page 20

Eighth Miami tourist killed: A German tourist was shot dead as he drove his rental car in Miami. It was the latest in a string of attacks on foreign tourists in the resort which have killed eight in the past year.

■ STOCK MARKET INDICES		
FT-SE 100:	3035.4	(-3.2)
Yield	3.79	
FT-SE Eurotrack 100	1266.53	(-10.85)
FT-A All-Share	1509.36	(-0.1%)
Nikkei	20,918.19	(-43.91)
New York: lunchtime		
Dow Jones Ind Ave	3583.63	(-23.47)
S&P Composite	454.86	(-3.66)
■ US LUNCHTIME RATES		
Federal Funds:	3 1/16%	
3-mo Treas Bills: Yld	3.013%	
Long Bond	105 3/8	
Yield	5.851%	
■ LONDON MONEY		
3-mo Interbank	(5 13/16%)	(same)
Liffe long gilt future:	Sep 114 1/4	(same)
■ NORTH SEA OIL (Argus)		
Brent 15-day (Oct)	$16.86	(16.14)
■ Gold		
New York Comex (Dec)	$353.6	(352.5)
London	$351.75	(354.25)

■ STERLING		
New York lunchtime:		
$	1.5407	
London:		
$	1.5405	(1.5425)
DM	2.495	(2.485)
FFr	8.785	(8.745)
SFr	2.1925	(2.185)
Y	162.75	(160.5)
£ Index	81.6	(81.3)
■ DOLLAR		
New York lunchtime:		
DM	1.6158	
FFr	5.699	
SFr	1.42085	
Y	105.53	
London:		
DM	1.619	(1.6105)
FFr	5.7025	(5.67)
SFr	1.423	(1.417)
Y	105.65	(104.0)
$ Index	64.6	(64.40)
Tokyo close Y 104.88		

Austria	Sch30	Germany	DM3.30	Malta	Lm0.60	S.Arabia	SR11
Bahrain	Din1.250	Greece	Dr300	Morocco	MDh13	Singapore	S$4.10
Belgium	BFr65	Hungary	Ft185	Neth	Fl 3.75	Slovak Rp	KS45
Bulgaria	Lev25.00	Iceland	IKr215	Nigeria	Naira45	Slovenia	SLT220
Croatia	HRD5700	India	Rs40	Norway	NKr16.00	South Africa	R12.00
Cyprus	C£1.00	Israel	Shk5.50	Oman	OR1.50	Spain	Pta210
Czech Rp	CZK45	Italy	L2700	Pakistan	Rs35	Sweden	SKr15
Denmark	DKr15	Jordan	JD1.50	Philippines	Pso45	Switz	SFr3.20
Egypt	E£4.50	Kuwait	Fils.600	Poland	Zl 22,000	Syria	S£50.00
Finland	FM12	Lebanon	US$1.25	Portugal	Es215	Tunisia	Din1.250
France	FFr9.00	Lux	LFr65	Qatar	QR12.00	Turkey	L8000
						UAE	Dh11.00

VW chairman reiterates his support for López

Christopher Parkes in Frankfurt finds embattled Piëch in fighting mood

MR FERDINAND PIËCH, Volkswagen's embattled chairman, who is fighting charges that his company stole secrets from its rival, General Motors, sees enemies all around. There are even some working against him inside his own senior management, he says.

They are fighting a losing battle. What he sees as the attempts by his opponents at Adam Opel, the German subsidiary of General Motors, to discredit his controversial production director, Mr José Ignacio López de Arriortúa, worry him least of all.

In a frank and wide-ranging interview with the Financial Times, Mr Piëch offered few counters and no concessions to his antagonists. Instead, he made plain that he sees everything that is going on – both beyond the factory gates and behind his back.

He presented the face of a man at home with and master of the most extraordinary imbroglio in Germany's recent business history. It is, after all, his own creation. "My creativity costs money and someone has to stop me," he says.

The person in this instance is Mr López, under investigation for theft and industrial espionage against Opel, his former employer, and Mr Piëch's "soul-mate."

Mr López is the man for whom, he says repeatedly, "I would put my hand in the fire". He was hired to rationalise VW production and squeeze ballooning costs. Mr Piëch makes no exceptions for himself. Like Mr Piëch, he is a skilled cost-cutter, a zealot, and a rare friend and ally against the VW chief's private demons: corporate bureaucracy and traditional German manufacturing practice.

Before Mr Piëch took charge last January, he was advised to clear out all the old management. "But I didn't do so . . . and as a result there are still too many dead bodies in the cellar."

The resistance to him is still there, even though Mr Piëch has made wholesale changes to the executive board and purged six of VW's former nine management layers. There are those who work against him, leaking and gossiping, forgetting that he has mastered other personal crises before and learnt from the experience.

He relates with some feeling his struggle in the late 1980s to take the wheel at Audi, VW's quality-car division. But Mr Piëch's already developed cost-cutting zeal worked against him among labour representatives on the company's supervisory board. Mr Wolfgang Habbel, then chairman and due to retire, was given a new two-year contract.

"The same day, two members of my immediate staff tried to get a job with him, although they had worked for me for many, many years," Mr Piëch says.

Continued on Page 18

FT Conference on world motors, Page 4; World car market, Survey, Section III

EC offers $575m aid package to West Bank

By Lionel Barber in Brussels

THE EUROPEAN Commission yesterday injected fresh momentum into the Middle East peace process by unveiling plans for a Ecu500m ($575m) five-year aid package for the occupied West Bank and Gaza Strip.

The funds are intended to encourage the Israelis and Palestinians to capitalise on the historic breakthrough on self-rule in the occupied territories and reach a full settlement.

In a linked move, Mr Hans van den Broek, EC commissioner responsible for external political affairs, appealed to Syria and Lebanon to end their boycott of the multilateral talks on regional co-operation in order to complete the process of reconciliation between the Arabs and Israel.

The Commission aid package, which must be approved by the 12 EC member states, is part of a three-pronged Middle East policy.

This includes forthcoming negotiations on a new partnership agreement between the Community and Israel; aid to the occupied territories; and a concerted effort to use EC money and expertise to promote closer regional co-operation between Israel and its Arab neighbours.

A senior Brussels official said a draft EC negotiating mandate would propose offering Israel an updated 1975 trade agreement and closer political ties. "Put crudely, they will receive a little more than the Maghreb but less than Poland," he said.

The EC initiative comes amid accelerating international moves to channel millions of dollars to the Middle East, intended to cement regional peace efforts.

Officials from Israel, Jordan, Egypt, the Palestine Liberation Organisation and the Gulf states are to meet at the World Bank on September 20 to discuss new infrastructure including roads, communications and water.

Mr Manuel Marin, the Spanish Commissioner responsible for EC development policy, said the EC funds for the occupied territories would be split equally between EC grants and EC loans from the European Investment Bank.

The grants would cover education, food aid, and health projects; while the EIB loans would be used to attract private capital into much-needed infrastructure.

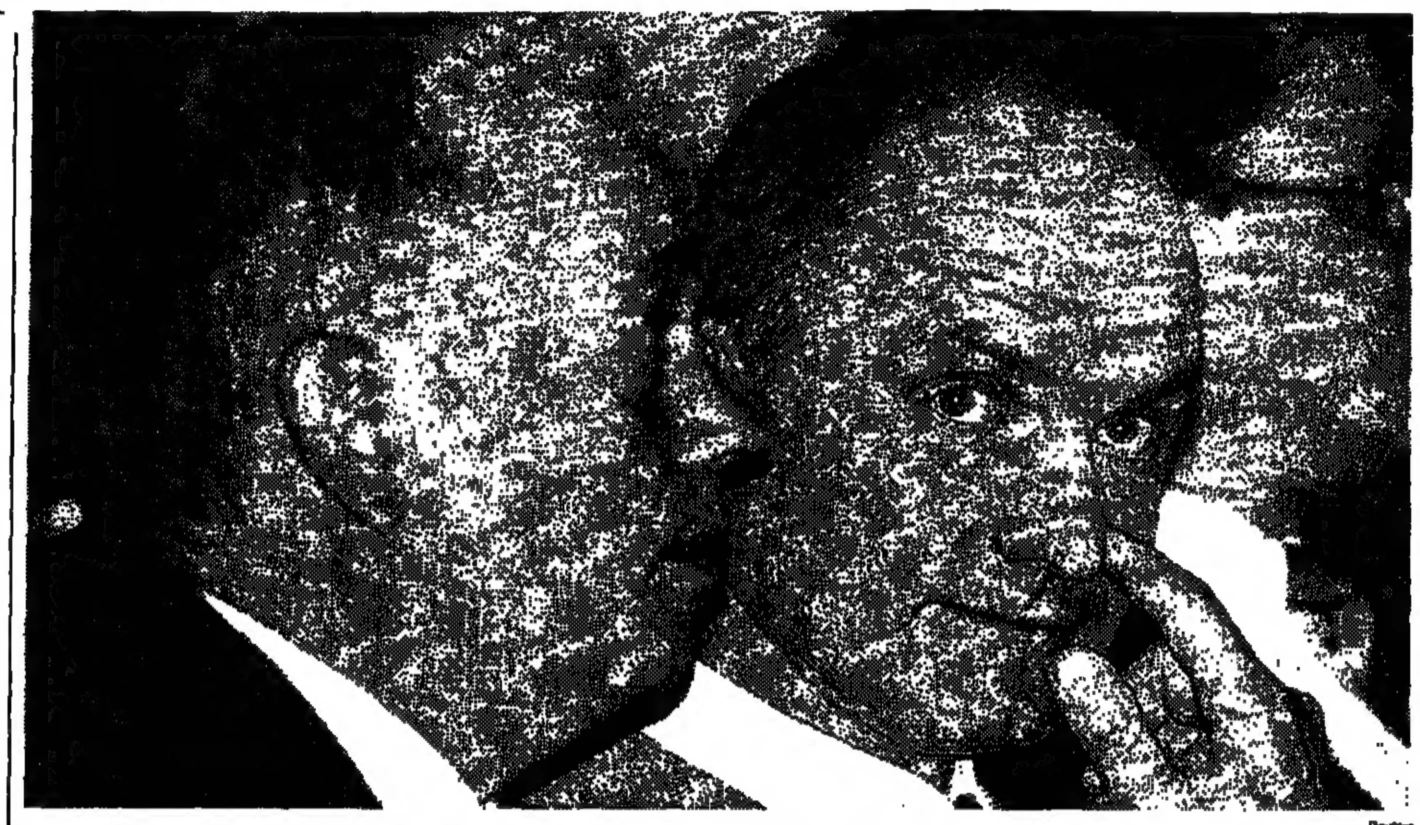
Mr Marin drew a parallel yesterday between developments in the Middle East and the Franco-German reconciliation in the 1950s which led to the European Coal and Steel Community, a precursor of the EC. "The only way for lasting stability is greater regional co-operation," he said.

The EC is already the chief supplier of aid to the Palestinians, raising its contribution from Ecu60m this year to Ecu90m this year. The latest aid package will be drawn from existing funds and require cuts in other unspecified areas.

Although there appears to be political will behind a greater aid effort, some senior EC officials were cautioning that member states may be reluctant to let the Commission take the lead role.

The UK, France and Germany are understood to have raised objections in recent days about any Brussels move to use the Middle East peace process as a test-vehicle for the common security and foreign policy as set out in the Maastricht treaty.

Resignation hits Rabin, Page 6



Reuters

Ferdinand Piëch, right, in Frankfurt with Ullrich Seiffert, responsible for research and development, and recently reinstated to the board

GM calls for co-operation in probe

By Kevin Done, Motor Industry Correspondent, in Frankfurt

VOLKSWAGEN should start to co-operate fully with the investigation by the public prosecutors of the alleged theft of secret documents from General Motors and not just "pay lip service" to co-operation, Mr Louis Hughes, president of GM Europe, said at the Frankfurt motor show.

"I wish the Volkswagen group, instead of saying they would fully co-operate with the public prosecutors, would actually do so. It is lip service; it is not endorsed by action."

In the event of charges, it would be "a case of industrial espionage of unbelievable proportions," said Mr Hughes. "An industrial version of Watergate."

VW said yesterday it was co-operating fully with the state prosecutor. Mr Hughes' remarks were "unjust". It was in VW's highest interest the matter was cleared up as quickly as possible, said Mr Otto Ferdinand Wachs, VW spokesman. "Of course we are co-operating fully with the prosecutor. It is our company's image that is being hurt by all the public discussion."

The public prosecutors have been investigating for more than four months the alleged theft of thousands of confidential documents from General Motors, the US carmaker and from Opel, its German subsidiary, in connection with the defection to Volkswagen in March of Mr José Ignacio López de Arriortúa, GM's former global purchasing director, with several of his former GM colleagues.

Mr Lopez is now the VW group's production and purchasing director. The prosecutors raided VW's head office in Wolfsburg and several other locations late last month and took away documents and computer files.

The alleged theft concerns the disappearance of highly sensitive GM documents which GM says are vital to its competitive standing.

Mr Wachs, of VW, said yesterday VW had written to the state prosecutor's office calling on it to take evidence as soon as possible from Mr Lopez, so that he could make a full statement. It had also welcomed the prosecutor's recent "visit" to VW's headquarters as a way of making progress in the investigation, he said.

Mr Hughes said yesterday: "It would be good if Mr Piëch [VW chief executive] and Mr [Klaus] Liesen [chairman of the VW supervisory board] would send a letter to VW employees saying that, without any danger to their job security or their relationship with their supervisors, they should say what they know of this case.

"It was 'incredible' that VW had admitted a few weeks ago that the defectors had had GM

Continued on Page 18

Farm trade deal cannot be renegotiated, France told

By David Buchan in Paris

THERE CAN be "no renegotiation" of the farm trade agreement made last year between the US and the European Community, Mr Peter Sutherland, director-general of the Gatt world trade organisation, warned Mr Edouard Balladur, the French prime minister yesterday.

After talks between the two in Paris yesterday, Mr Sutherland said "a significant number" of the 108 countries negotiating in Gatt did not want the draft agreement to be reopened.

France, under pressure from the militant French farmers' lobby, has demanded changes to the accord, which foresees cuts in EC agricultural export subsidies.

EC and Gatt officials have warned France that reopening the deal would make December 15 impossible as a deadline for a new world trade agreement in the Uruguay Round of Gatt talks.

There was "only one opportunity left" to finish the Gatt negotiations, Mr Sutherland told the French prime minister yesterday, and that was to finish them by the December 15 deadline. The deadline, he added, "has been set by the negotiating parties, not by me".

Mr Balladur, however, indicated that legally the Blair House farm agreement, which the EC negotiated with Mr George Bush, then US president, had never been properly concluded. He insisted – and Mr Sutherland conceded in remarks after his meeting – that "there is no European position until the EC Council of Ministers decides".

Mr Balladur, according to French officials, characterised the December 15 deadline as "an American date", inserted for US political convenience. He went on: "Be sure that I want a Gatt agreement, but I ask that all should make an effort, not just the French." France's position, Mr Balladur said, was "not all or nothing", a stance which he said other countries should adopt.

The Blair House accord will be discussed by EC foreign ministers this weekend and by farm and foreign ministers at a special session on September 20.

France has recently revived its threat to veto the farm accord with the US, which it claims goes far beyond EC farm reform and menaces France's position as the world's number two agricultural exporter.

Mr Sutherland reported that Mr Balladur emphasised that France's "vital interests" were at stake, language traditionally used to justify a national veto within the EC.

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Progress on EC steel restructuring

By Andrew Baxter

THE RESTRUCTURING of the recession-torn European steel industry took a step forward yesterday when the European Commission agreed a loan scheme to help producers make capacity cuts.

The scheme is a key element in the European Community's efforts to enable the industry to shed 30m tonnes in excess crude steel capacity.

But steel industry observers warned last night that the much-needed restructuring of the industry – most of which is losing money heavily in spite of recent price increases – still faces big obstacles before it can be implemented.

The Commission said it would provide loans to companies, grouped along three product lines, which agreed to pool funds to finance capacity cuts made by the end of next year.

The loans would be paid back by the companies which did not cut capacity. Officials said the fund would earmark about Ecu1bn ($1.17bn) to cover capacity cuts of 6m tonnes of hot-rolled coil and strip, 2m tonnes of plates and 2.5m tonnes of heavy section.

The product-based loan scheme is one of the less controversial elements of the steel restructuring plan. Even so, it is reported that approval has already been postponed once because some commissioners queried what repayment guarantees the steelmakers would give. But agreement on the loan scheme could at least restore some momentum to the restructuring effort, whose original timetable has begun to look unrealistic.

In February, the Commission gave steelmakers until September 30 to present closure programmes to qualify for its rescue plan.

However, the original timetable has slipped because of the deadlock in the summer in the Commission's negotiations over state subsidies, notably with the Italian government in relation to the struggling Ilva steel group.

The Commission has still not resolved this case, or that involving the Spanish steel industry. The sticking point is the amount of capacity, and jobs, that producers are prepared to cut in return for receiving the state subsidies.

But private sector companies want the subsidy issue resolved before agreement can be reached on any capacity cuts they might offer. Some private sector producers have become increasingly exasperated at the lack of progress.

Last month, a select committee of the UK's House of Lords entered the debate with a strongly-worded report that warned against further state subsidy to support inefficient production. It said the restructuring plans could be put at risk unless a strict timetable is enforced to settle outstanding disagreements on state aids.

The report said restructuring of the EC steel sector was long overdue, and warned that excess capacity hit profitability throughout the industry. It said there was "a real danger" that efficient private companies could suffer at the expense of inefficient state producers. The subsidies issue will be discussed by EC industry ministers on September 21. The ministers must also review the loan scheme.

Kohl v Scharping ends in draw

By Quentin Peel in Bonn

IT WAS a taste of things to come: the first public clash of party leaders, Kohl against Scharping, the two certain combatants for next year's battle royal in the German elections, meeting each other for the first time across the floor of the German Bundestag.

For those with a fine eye and ear for the parliamentary scrap, it was a surprisingly dignified affair. Whatever divides the two gentlemen from the Rhineland Palatinate, they clearly share a mutual respect.

The youthful Mr Rudolf Scharping, 45, barely 100 days in office as leader of the Social Democrats (SPD), delivered an hour-long onslaught on the record of his rival with only a handful of notes to guide him. He steered clear of personal invective, stuck to the issues of unemployment, social spending, and the soaring budget deficit, and his opponents were obviously impressed.

As for Chancellor Helmut Kohl, the charges against his government of incompetence, lack of vision and failure of leadership simply rolled off his broad back. He gave the occasional word of advice on how his young challenger might one day hope to fill his office. It was painfully condescending.

However, Mr Wolfgang Schäuble, parliamentary leader of Mr Kohl's Christian Democratic Union, and the big man's heir apparent, showed he remains a street-fighter in spite of being confined to a wheelchair. He accused Ms Ingrid Matthäus-Maier, the SPD shadow finance minister, of spouting "unutterable rubbish" in her budget speech, causing that normally unflappable lady to storm out of the chamber.

Mr Scharping only put one foot wrong: he suggested that even if the chancellor had firmly squashed talk of curbing old age pensions at this stage, his party would surely come back to its nefarious plans "after the elections in 1994", implying that the CDU would win. It was a small slip, on a day with honours even.

Chancellor Kohl was painfully condescending towards SPD leader Rudolf Scharping yesterday but honours were even

Reuter

Russia and US build on military ties

RUSSIAN and US and defence leaders met yesterday to further improve military ties between Moscow and Washington and to discuss nuclear and other issues, Reuter reports from Washington.

General Pavel Grachev, the Russian defence minister, and US defence secretary, Mr Les Aspin, met at the Pentagon to sign a defence co-operation agreement as the two countries rapidly build bridges.

The two met in Germany three months ago and said then that the agreement would pave the way for a range of moves, including joint peacekeeping manoeuvres.

One future exercise is expected to involve Russia's big 27th Motorised Rifle Division and the 3rd US Infantry Division based at Frankfurt.

Mr Aspin said that future joint peacekeeping exercises could take place in Russia, the US and Europe.

Yesterday's agreement also improves telephone communications between the US and Russian defence ministries, enabling Gen Grachev and Mr Aspin, as well as top military officers, to discuss issues on a regular basis.

Mr Aspin noted that the plan includes annual meetings between US and Russian defence ministers as well as senior military officers and one exchange involving about 100 promising young military officers each from Russia and the US. The two ministers also discussed nuclear and other issues, including Russia's moves to destroy hundreds of former Soviet nuclear weapons on its territory.

At the Pentagon last week, senior Russian and US defence officials signed two agreements providing additional US assistance to help Russia destroy the weapons.

The nuclear agreements signed at the Pentagon last week provide $85m in US equipment and training to help build a storage facility in Russia for nuclear material taken from former Soviet warheads and for protection of civilian nuclear material in Russia.

The agreements, along with other nuclear aid memorandums already signed, brought to $370m the total being provided by Washington to Moscow to destroy nuclear arms and protect nuclear material from falling into terrorist hands.

Brussels tightens Italian aid curbs

By David Gardner

THE European Commission yesterday reinforced its increasingly tough line on state aid in Italy when it attached strict conditions, applicable to all Italian state holdings, to its authorisation of payments to creditors of Efim, the liquidated state industrial holding.

Yesterday's decision follows a preliminary deal reached in July between Mr Karel Van Miert, EC commissioner for competition, and Mr Beniamino Andreatta, Italian foreign minister, which allowed for repayment of half the bank loans.

Efim was put into liquidation in July 1992 with total debts of nearly L18,000bn (£7.49bn). Financial institutions were owed L8.3bn of this, including more than L3,500bn to foreign banks. The loans were guaranteed by the state under Italian law, and Rome argued it was obliged to honour what amounted to sovereign debt.

The Commission accepted this argument, but in effect held up the deal as part of a wider effort to bring Italian state aid under control. At the time of the July understanding between Brussels and Rome, the Italian government withdrew its plan to write off debts worth Ecu4bn (£3.08bn) run up by Ilva, the steel group.

The two sides are still negotiating the size of the write-off against Commission demands for a sharp reduction in steel capacity, due to be discussed at a special Council of Ministers meeting in two weeks' time. Now, as part of the definitive agreement on Efim, the Italian government will have to:

- *Impose a freeze on debt at* state-owned companies by the end of 1993;
- Reduce this debt to levels in equivalent companies in the private sector by the end of 1996;
- Revoke the government's loan guarantee arrangements to state-owned companies immediately afterwards;
- Agree to the Commission's joint monitoring of the whole process.

"We have to ensure that in a few years' time the [Italian] state won't come back to us with the same arguments," a spokesman for Mr Van Miert said. The remainder of Efim's debts, largely to suppliers, will be dealt with under normal state aids procedures, the Commission stated.

■ Italy's labour minister yesterday played down the risk that job riots could spread following violent protests over the threatened closure of a chemical plant in the southern port of Crotone, Reuter reports from Rome.

"There is an emergency, but there will not be 10, 100 or even 1,000 other cases like Crotone," the Labour minister, Mr Gino Giugni, told the daily la Repubblica newspaper after workers reacted to lay-off notices by destroying part of their condemned factory.

In Crotone itself, riot police continued to surround the factory which hundreds of workers were occupying.

On Monday night, protesters sacked the plant's offices and set fire to a main road by pouring highly toxic phosphorus on it after ENI, the state energy group, said it would lay off 80 per cent of the workforce at its Enichem plant in Crotone.

Unions have accused ENI of acting irresponsibly over the Crotone lay-offs and warned that violence could break out in other high unemployment areas. Union leaders said that decisions like ENI's in Crotone, or the sacking of 2,000 municipal workers in Naples, were either sheer stupidity or a deliberate ploy to make the south explode.

Norway's Labour party well ahead

By Hugh Carnegy and Karen Fossli in Oslo

NORWAY'S ruling Labour party has widened its lead over its rivals and is set to remain in power after next Monday's general election, according to an opinion poll published today.

The poll, published in Aftenposten, Norway's leading daily newspaper, suggested that support for Prime Minister Gro Harlem Brundtland's Labour party had surged three points to 37.4 per cent compared with a week ago.

The main opposition Conservative party slipped for the second week in succession, this time by 0.6 points to 19.4 per cent.

Labour's gains appeared to be at the expense of the Socialist Left (SV) party, with which it has agreed to co-operate after the election on most issues, except the Europe Community. The SV's support fell by 2.5 points to 10.3 per cent.

Political analysts said the Labour party's strategy to play down the issue of Norway's application to join the EC appeared to be paying off. Labour party policy supports the application but membership is opposed by most Norwegians, according to polls.

Today's poll was taken after Mrs Brundtland had campaigned in the staunchly anti-EC north of the country where she told fishermen that a vote for Labour did not mean an endorsement of EC membership. She said the issue would be decided in a referendum to be held by 1995.

Her approach seemed to have blunted the attraction of the anti-EC SV, which has made the issue of membership a key part of its campaign.

The anti-EC Centre party, heavily supported by Norway's highly subsidised farmers, managed to progress in the poll by 1.1 points to 11.7 per cent, almost double its vote in the 1989 election.

The right-wing Progress party, meanwhile, continued its poor showing in the polls, shedding 1.1 points. Its support now stands at only 6.6 per cent of the electorate.

Norwegians turn a deaf ear to right

A conservative economic message finds no echo, write Hugh Carnegy and Karen Fossli

NORWAY'S Conservative party, fighting an uphill battle against the ruling Labour party in next Monday's general election, came up last month with a telling message on the deteriorating state of the public finances.

Mrs Kaci Kullmann-Five, the opposition leader, picked up on a reference made during the last election campaign in 1989 by Prime Minister Gro Harlem Brundtland, who told a group of schoolchildren that the government should no more overspend than their parents should buy Mercedes cars they could not afford.

In fact, said the Conservative leader, government deficit spending over the past three years amounted to the purchase of more than 300,000 Mercedes, and Labour's plans for the next four years would add another 460,000.

The problem for the Conservatives, who are slipping in the polls, is that few Norwegians appear to be listening. On the contrary, the minority Labour government is making much of an improvement in the oil-dependent economy since it took over from a Conservative-led coalition in 1990 in the midst of recession. Last year, gross domestic product grew by 3.3 per cent. Even excluding North Sea oil and shipping revenues, the economy grew by 2 per cent. Much the same performance is expected this year, with a slight improvement forecast for 1994.

Oil and gas production rose sharply, with crude oil output rising by 14 per cent to a record 2.22m barrels per day. This year, average daily oil production is expected to hit 2.28m barrels.

More tangibly, as far as voters' pockets are concerned, interest rates and inflation have tumbled.

Inflation is set to rise slightly to 2.75 per cent for the year as a whole, but at its current level of 2.3 per cent is the lowest in Norway for three decades.

Meanwhile, the Bank of Norway has cut its key overnight lending rate no less than 12 times this year from 11 per cent in January to 5.5 per cent today.

The three-month domestic Euro-rate stands at 6.2 per cent, compared with 6.6 per cent in Germany and 7.7 per cent for the Ecu.

The less good news concerns unemployment.

The real jobless rate has grown steadily to 8.2 per cent of the workforce in August and will not stabilise until next year.

Compared with its neighbours, Finland and Sweden, Norway has escaped lightly, given that it shares many of the same characteristics of high welfare and production costs and indulged in the same credit-led boom in the late 1980s.

Finland and Sweden have both seen their economies shrink for three years in succession and anticipate only a modest return to growth next year. Unemployment in Finland has topped 20 per cent and is at 13 per cent in Sweden.

But the jobless rate in Norway still stands at its highest level since the second world war and is a top political priority. So Mrs Brundtland's Labour party, relying on the safety net of oil, has made no bones about using fiscal policy to boost the economy.

The result has been a steady slide into deficit from a budget surplus equivalent to 0.5 per cent of GDP in 1990 to a forecast deficit this year equal to 7.5 per cent of GDP.

Excluding oil, the figure shoots up further to a deficit of 12.8 per cent of GDP. Government forecasts are also based on a projected oil price of $19 per barrel, a level significantly above current prices.

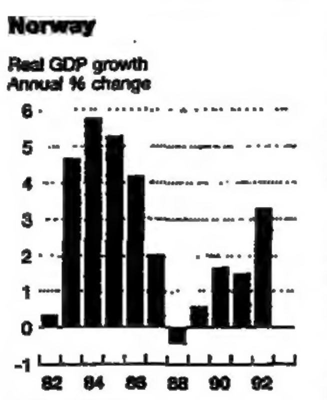
It is not just Mrs Kullmann-Five who has attacked the issue of the deficit. Mr Hermod Skanland, the governor of the Bank of Norway, has been a persistent critic.

"We can no longer base growth and employment on government stimulation of demand," he said in a speech early this year. "Other countries have previously had to embark on the far more difficult path of adopting structural policy measures to improve the functioning of the economy."

What critics like Mr Skanland are worried about is a long-term weakening of the non-oil economy at a time when the benefits of oil revenues should be being used to reform and strengthen what is usually known in Norway as the mainland economy.

They want to see, among other changes, government deficits curbed to allow for an easing of Norway's high taxes and measures, such as changes in labour market practices, to improve competitiveness and expand Norway's narrow non-oil manufacturing base.

As the Conservatives are finding, however, it is a call that has received little echo in the election campaign among voters whose belief seems to be that the hard times are behind them.



Source: Datastream

The Marseillais out of tune

By Alice Rawsthorn in Marseilles

ONE PIECE of graffiti scrawled on a wall outside the Olympic Marseilles football stadium sums up the mood of the city – "*Seuls contre tous*", or "Alone against everyone".

Marseilles, one of France's most depressed cities, is already painfully accustomed to the loneliness of economic decline and political isolation. The *Marseillais* now feel more abandoned than ever after this week's decision by the European football authority, Uefa, to exclude Marseilles from this season's European Cup because of allegations of bribery by the club's officials.

Anger will have turned to resentment when it was announced yesterday that rich rivals Monaco, from along the Mediterranean coast, had accepted the French Football Federation's invitation to replace Marseilles in the tournament.

"The French Football Federation could have done something," said Mr Jean-Claude Boisson, a taxi driver who, like most in Marseilles, is a lifelong supporter of the local club. "But they did nothing to help us – nothing. They're jealous of O-M's success, jealous of Bernard Tapie (the club's chairman) and they don't give a shit about Marseilles." Mr Boisson's anger is typical of the reaction in Marseilles to the Uefa ban. Marseilles, like Liverpool and Naples, conforms perfectly to the cliché of an economically depressed city that has salvaged its civic pride through the triumphs of its football team.

Marseilles, which once prospered as the main trading post between France and its North African colonies, has been in decline since the empire disintegrated. These problems have been aggravated by its political position. Marseilles, a socialist stronghold, was shunned by the Gaullist governments of the 1970s and by the socialist administration in the 1980s because Mr Robert Vigouroux, the present mayor, is an independent who clashed with the party establishment.

The city's population has dwindled by 100,000 to 800,000 in the past decade. The level of unemployment is almost twice the national average at 20 per cent and reaches 30 per cent in the slums. But in recent years the *Marseillais* have had the consolation of watching their football team become France's most successful. "It's the only thing we've got," said Mr Mario Prossero, a fan.

The Marseilles club owes its success to Mr Tapie, an entrepreneur who took over the club in 1986 after making a fortune by rescuing bankrupt businesses. He has since invested an estimated FFr130m (£14.8m) in the team.

His generosity was almost certainly linked to his political ambitions. Mr Tapie has since 1989 been member of parliament for a nearby Bouches-du-Rhône constituency and was briefly urban minister in the last socialist cabinet. However, the football club has flourished, culminating in last season's triumph when it became the first French team to win the European Cup.

The fans are now pinning their hopes on Mr Tapie, who hopes to stand as a future mayor of Marseilles. He will today hold meetings in the city with local officials and bankers, and then address the club's supporters at the stadium.

"He's helped us before and he'll help us again," said Mr Philippe Marcaini, another fan.

Tony Andrews

For the people of Marseilles football is a matter of civic pride

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Bosnia's Moslems ask for US backing

By Gillian Tett

BOSNIA'S Moslem president Alia Izetbegovic yesterday prepared to take his case directly to the White House, in another desperate attempt to muster international support.

In spite of their accusation that the west has abandoned them, the Bosnians yesterday did little to conceal their belief that the US remains their best hope to pressure the Croats and Serbs into more concessions.

It is a belief that the US seems reluctant to quash. Last week, Mr Warren Christopher, US secretary of state, indicated that the Serbs and Croats should be blamed for the breakdown of the peace talks. Shortly after, President Bill Clinton made fresh threats of air strikes against the Serbs and Croats. Next week Mr Les Aspin, US defence secretary, is due to visit Sarajevo.

Meanwhile, suspicions remain in some diplomatic quarters that comments from American officials at the Geneva talks last week might have encouraged the Moslems to stall the talks. American and Bosnian officials deny this. However Mr Clinton's decision to receive Mr Izetbegovic as Bosnian president at all is nevertheless seen as a significant gesture of support, though a US administration official pointed that Bosnia was a state recognised by the US and that Mr Izetbegovic had met Mr Clinton before.

Mr Muhamed Filipovic, a member of the Bosnian government's Geneva delegation, yesterday said: "We know that the Americans have been opposed to the division of Bosnia and still are. And so we have hopes."

Nevertheless, the message to Mr Izetbegovic from President Clinton last night remains ambiguous. Amid continued divisions among the allies – and within the US government itself – over what can be done in the Balkans, Mr Clinton seems neither ready to demand that the Bosnians accept the peace plan, nor prepared to impose any alternatives.

The indecision reflects the dilemma which Mr Clinton now finds himself in.

As American officials well know, if he fails to act over Bosnia, he is liable to face fresh charges of foreign policy weakness. But if he attempts to act unilaterally, he risks further straining the transatlantic alliance, and possibly weakening his position at home, given limited domestic support for the deployment of US troops in the Balkans.

Faced with this uncertainty, the most that Mr Izetbegovic could realistically hope for from yesterday's meeting would be a better guarantee that the US will contribute to peacekeeping troops. Indeed, such a guarantee would do much to encourage the Moslems to return to negotiations – tentatively scheduled to start again in 12 days time – in spite of their insistence that they would rather fight on than accept the current peace proposals.

Although military officials in Washington have indicated in recent days that America would be prepared to provide a large part of a peace-keeping force – perhaps up to 30,000 troops – uncertainties remain. Senior military officials are known to remain opposed to placing American troops under a UN command.

The option that Mr Izetbegovic himself clearly hopes for – American-led air strikes in Bosnia – appears increasingly problematic, in light of the complexity of the situation on the ground.

As an American official recently admitted: "Persuading the rest of Nato to consider air strikes against the Serbs was hard enough. Persuading them to do them against the Croats or Croats and Serbs together will be much harder – particularly with UN troops up on (Mount) Igman."

Hope of end to Nagorno Karabakh war

Azeris offer peace talks

By John Lloyd in Moscow

MR Haydar Aliyev, acting head of state of Azerbaijan, yesterday offered immediate talks with Armenian leaders. His move raised hopes for an end to the five-year struggle between the two newly-independent former Soviet states for control of the Armenian-dominated enclave of Nagorno Karabakh, which is within the borders of Azerbaijan.

Mr Aliyev, speaking at a press conference after two days of talks with Russian leaders in Moscow, said: "I have stood and now stand for a peaceful settlement of this situation. . . it will not be settled by military means."

He refused to be drawn on whether he would trade the independent status of Nagorno Karabakh for return of the 20 per cent of Azerbaijan which has now been occupied by Nagorno Karabakh forces.

Previously Azerbaijan has refused to contemplate a change of status for Nagorno Karabakh.

The Russian official news agency Itar Tass quoted Mr Levan Ter-Petrossian, the Armenian president, as saying he would be willing to meet Mr Aliyev.

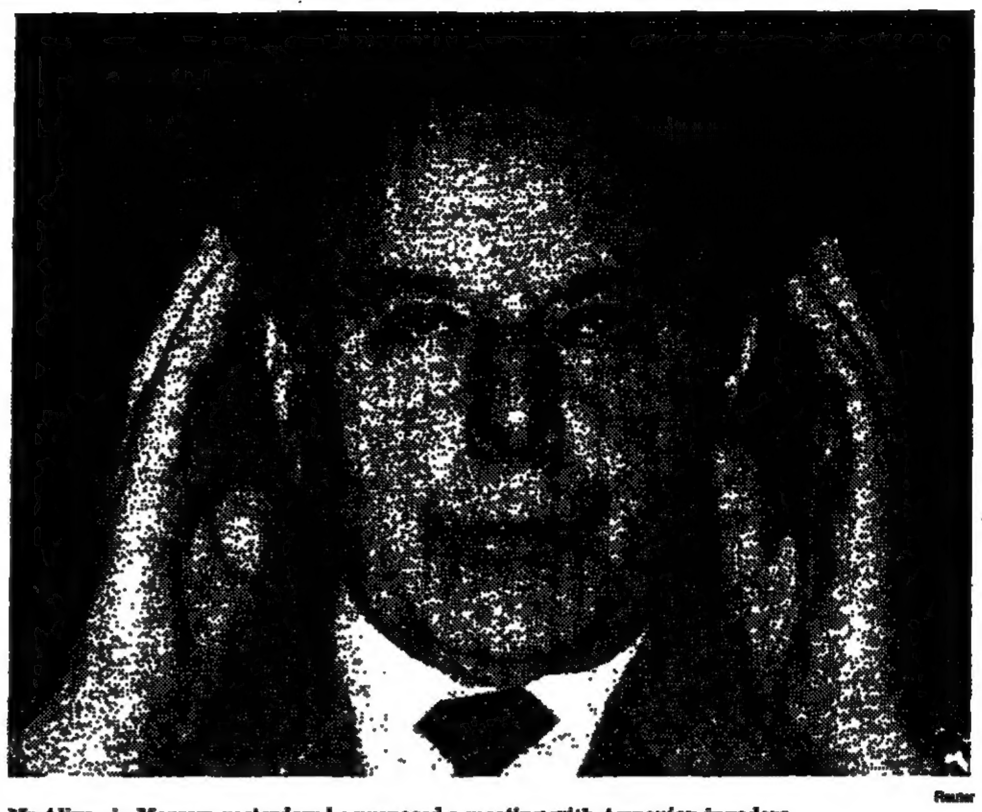
Mr Aliyev, who is to be confirmed as president next month, was formerly first secretary of the Azerbaijan Communist party – and showed yesterday that he retains his aura of authority and appetite for power.

Though he has clamped down on the opposition by jailing leading members of the Popular Front, supporters of the ousted president Mr Abulfaz Elchibey, he presents himself as a man committed to peace and uninterested in the fierce nationalism espoused by Mr Elchibey.

Mr Hikmet Cetin, the Turkish foreign minister who is in Moscow with a top-level Turkish delegation, said yesterday that the issue had become an international one – and likened Armenia's capture of Azerbaijani land to the invasion of Kuwait by Iraq.

He warned that an Armenian attack on Nakhichevan – the Azerbaijani enclave within Armenia with which Turkey has a small common border and whose security it protects through a 70-year-old treaty – would mean that "the problem may get out of hand".

Mr Cetin disclosed that Iranian forces had crossed a kilometre or two into Azerbaijan – but said it was not a threatening move and was designed only to regulate the flow of refugees from Azerbaijan into Iran.



Reuter

Mr Aliyev in Moscow yesterday: he proposed a meeting with Armenian invaders

A Russian Perot urges end to chaos

By John Lloyd in Moscow

MR Yuri Skokov, a former head of Russia's Security Council yesterday presented himself as the effective leader of a new political grouping which calls for an end to political wrangling. Mr Skokov, a figure often tipped as a future saviour of his country, is counting on support from the majority of people presumed to be sick of politics and politicians.

With the support of Mr Nikolai Travkin, leader of the Democratic Party and Mr Oleg Poptsov, chairman of Russian Television, Mr Skokov said yesterday the group, called Agreement for the Motherland, would organise a gathering of "the peoples and citizens of Russia" next month.

He said the intellectual potential of the country must be harnessed to find a way through the political deadlock gripping Russia, which is preventing either reforms or reaction.

Mr Skokov's group, which won immediate support from Mr Yevgenny Kozhokin, head of the parliament's Security and Intelligence Committee and from Mr Ramazan Abdulatipov, chairman of the House of Nationalities in the Russian Parliament, stands for "an evolutionary path to a federal, democratic and law-governed state".

"People are tired of conflict," he said. "What we offer is self-preservation, survival."

The group, which has caused a stir in the capital because of Mr Skokov's reputation as a shadowy figure of the corridors of power, is one of several competing and mobile alliances now manoeuvring for popular and financial support before elections which are expected to be called this autumn or, more likely, next spring.

Leading figures such as Mr Yegor Gaidar, the former prime minister, Mr Alexander Rutskoi, the vice president (currently suspended), Mr Grigory Yavlinsky, the leading economist, and Mr Sergei Shakhrai, the deputy prime minister, are criss-crossing the country addressing meetings and giving interviews.

With the exception of Mr Gaidar, whose "Russia's Choice" bloc is proposing free market policies, and the neo-nationalists and neo-communists who have formed a delicate alliance, most of the groups are vying for the centre ground.

Mr Skokov's base is in the regions, where he is assumed to command a good deal of support. He has said that his group is being funded by donations from 20 regional councils.

As a man so far untouched by scandal or allegations of corruption, and with strong links to the Soviet period which is now seen in a positive light by many, he could become a rallying figure for those disenchanted with the democrats who support Mr Yeltsin but find the nationalist/communist alliance too strong a dish, even in today's chaotic society.

A third key reformer resigns in Romania

By Virginia Marsh in Bucharest

MR Aurelian Dochia, head of Romania's privatisation agency, has resigned, becoming the third well-known reformer to leave the government in the past two weeks.

Western businessmen and diplomats in Bucharest said his resignation added to uncertainty over the commitment of the left-wing minority government to reform and rapid privatisation.

Mr Dochia's departure follows the resignation of Mr Misu Negritoiu, deputy prime minister responsible for economic reform, and the dismissal of Mr Emilian Ijdelea, president of the Romanian Development Agency, the government's foreign investment arm, last month.

Both Mr Dochia and Mr Ijdelea reported to Mr Negritoiu, an independent, who was considered the cabinet's most important reformer. Mr Dochia said the state had so far sold only 1 per cent of the equity of the 6,280 state companies earmarked for privatisation, even though the 1991 privatisation law stipulated that 10 per cent should be sold each year.

He said the best solution would be to bring the State Ownership Fund, the 70 per cent owner of the commercial companies, under government control.

Before his resignation, Mr Negritoiu had begun to make the SOF, conceived as an independent body, more accountable to government but had run into political opposition.

The SOF's board has been dominated by members of the ruling Social Democracy party since it won last September's general elections.

The party, which includes many senior former communists, has encouraged SOF to give priority to privatisation through management or employee buy-outs. The board has allowed the SOF to invest the proceeds in other state firms with the aim of giving them a better chance of survival once privatised.

Opposition parties say this is not permitted under the 1991 law. The SOF should make efforts to attract foreign investors and sell off state companies as quickly as possible, they say.

Costs dispute with Prague sours Skoda deal

Profitability drive by Volkswagen could damage prospects in Czech Republic, writes Patrick Blum

THE Czech government and Volkswagen, the German carmaker, are locked in dispute over prices and suppliers which threatens to sour their relationship and damage VW's prospects in the Czech Republic.

The dispute erupted when Skoda, the Czech car manufacturer in which VW has a 31 per cent stake, announced in August it was increasing its car prices by an average of 8 per cent, and hinted it would seek some supplies from western Europe because of rising costs in the Czech Republic.

VW plans to raise its stake in Skoda to 70 per cent by 1996 and invest up to DM9bn (£3.6bn) in the venture over 10 years.

Only yesterday Lucas, the UK motor components group, said it had won an "historic" contract to supply Skoda with components via a Czech-based joint venture. Lucas Autobrzdy, set up in March and in which Lucas has a minority interest, is to supply Skoda's Czech plant with rear axle assemblies in a deal worth £15m a year.

The Skoda announcement on price rises in August stems from the Volkswagen group's drive to improve profitability and cut production costs worldwide.

Suggestions early this summer that Skoda, which is expected to help develop a large network of suppliers in the Czech Republic, was considering switching some of its supplies from Czech to German and UK producers, angered the government. "If Volkswagen is changing its view, then we can also change our view," said a government official privately.

The increase in the price of the Skodas was the latest in a series that has brought the price of a basic model to about CzK170,000 (£3,860). That is almost twice the cost of a similar Skoda model three years ago, an increase well above price rises generally.

The move surprised the government which wants to curb an inflation rate expected to be about 17 per cent this year. Mr Stanislav Belehradek, minister for economic competition, responded by threatening to reduce the tariff on imported cars from 15 per cent for European Community-produced cars and from 19 per cent for other cars, to 10 per cent.

The threat aimed at increasing competition from other manufacturers fell flat however when it became known that in 1991, the Czech government had promised VW it would maintain high tariffs on imported cars for four years, as an incentive for the German company's investment in Skoda.

Prime minister Vaclav Klaus, who at the time was finance minister of the now defunct Czechoslovak federation, said he had rejected VW's request for tariff protection. He said the promise was made without his knowledge in a letter by Mr Petr Pithart, the then Czech prime minister. The suggestion is that as the letter was not formally approved by the cabinet it may not be binding.

This provoked a furious debate within the government, with senior officials warning that going back on the promise would damage the country's reputation. The problem for the government is that it cannot back down without losing face.

The price increases have provoked angry letters of complaint from customers. Autoklub, the Czech motoring association, accused Skoda of taking advantage of its effective monopoly on Czech low-priced cars.

Skoda rejects the accusations saying its market share had fallen to around 35 per cent with the biggest market share going to second-hand imports.

"We have to raise prices because we have large costs to improve the cars, marketing, establishing a network of suppliers, and we are investing in the development of a new car. People have to understand they have to pay for our investment in new products," Mr Milan Smutny, Skoda spokesman said.

He also rejected suggestions VW had lost interest in local suppliers. "We want to continue with the input of Czech and Slovak producers. Our policy is that the majority of our supplies should be made here, but we need low (supply) prices. We can't continue co-operation with suppliers who cannot adapt when we can get 30-40 per cent lower prices from Germany," he said.

The joint venture plant at Mlada Boleslav, 40 miles north of Prague, was established in 1991. It produces more than 200,000 cars annually, more than half of which were exported last year, and plans are to raise production to 450,000 cars. But tough restructuring measures launched this year by Mr Ferdinand Piëch, VW chairman, had created "big pressure to cut cost and raise profits" throughout the group, said Mr Smutny.

VW is accused of paying lip service to probe

By Kevin Done

VOLKSWAGEN should start to co-operate fully with the investigation by public prosecutors of the alleged theft of secret documents from General Motors and not just "pay lip service" to co-operation, Mr Louis Hughes, president of GM Europe, said at the Frankfurt motor show yesterday.

"I wish that the Volkswagen group, instead of saying they would fully co-operate with the public prosecutors, would actually do so. It is lip service. It is not endorsed by action." If charges were made, it would be "a case of industrial espionage of unbelievable proportions," Mr Hughes said. "An industrial version of Watergate."

VW said yesterday it was co-operating fully with the state prosecutors and that Mr Hughes' remarks were "unjust". It was in VW's interest that the matter be cleared up as quickly as possible, said Mr Otto Ferdinand Wachs, VW spokesman.

The prosecutors have been investigating for more than four months the alleged theft of thousands of confidential documents from General Motors, the US carmaker and from Opel, its German subsidiary, in connection with the defection to Volkswagen in March of Mr José Ignacio López de Arriortúa, GM's former global purchasing director, along with several of his former GM colleagues.

Mr López is now the VW group's production and purchasing director. The prosecutors raided VW's head office in Wolfsburg and several other locations late last month.

The alleged theft concerns the disappearance of sensitive GM documents which the US group says are vital to its competitive standing, including the prices it pays suppliers for components, lists of its components suppliers, and confidential details of its future product programmes.

"It would be good if Mr Piëch [VW chief executive] and Mr [Klaus] Liesen [chairman of the VW supervisory board] would send a letter to VW employees saying that, without any danger to their job security or their relationship with their supervisors, they should say what they know of this case."

López preaches gospel of third industrial revolution

Kevin Done in Frankfurt sees why so much fuss has been made of VW's charismatic production director

THE gospel of the third industrial revolution was presented in Frankfurt yesterday by Mr José Ignacio López de Arriortúa, Volkswagen's beleaguered but charismatic production and purchasing director.

His preaching has changed little since joining Volkswagen in Germany in March from his post as global purchasing director of General Motors in the US. Those that fail to grasp that the third industrial revolution is under way are condemned to fall by the wayside as surely as those that ignored the first two, namely the introduction of the steam-powered loom in Britain in 1750 and the production of cars on a moving assembly line in the US in 1913.

The only changes in the text of the sermon from GM to VW – the stumbling giants of the car industry in North America and Europe respectively – concern the location of the congregation.

In the US, when Iñaki, as he is popularly known to colleagues old and new, preached to the citizens of Saginaw or Flint in the heartland of the US Midwest, it was America and the Americans that were in danger of becoming "a second-class economy and second class citizens," if they did not heed the message.

Now it is the citizens of Wolfsburg and Lower Saxony that could go the same way. For America read Europe.

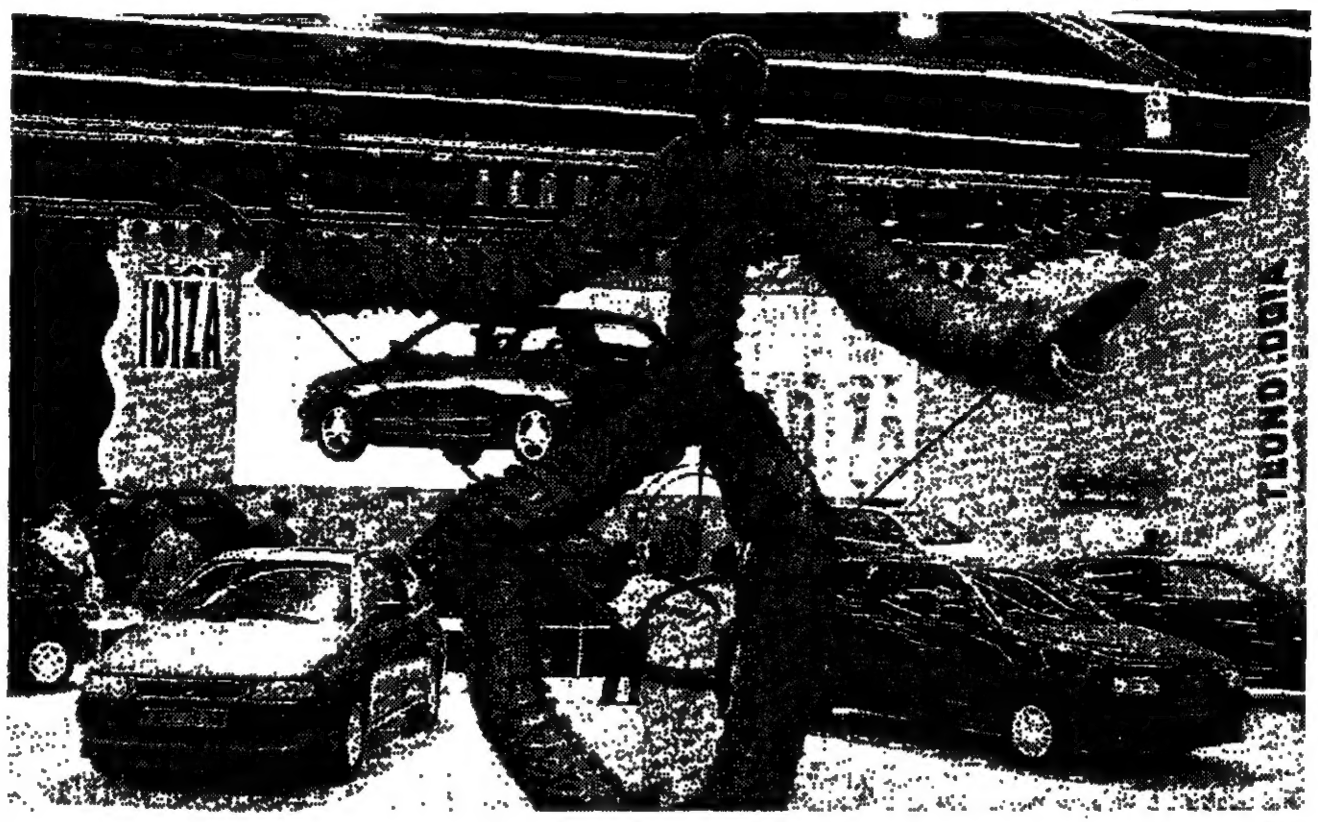
Mr López was introduced to the Financial Times Motor Industry conference in Frankfurt as "the warrior from Volkswagen" by Professor Daniel Jones. Prof Jones has also made a strong line in the past three years out of the gospel of "lean production," a term he helped to coin in the book The Machine That Changed The World.

But this was Mr López's day – a day to show his audience of component makers, rival car producers, bankers and financial analysts just why so much fuss has been made about him and why both GM and VW were prepared to offer contracts with telephone number salaries to secure his services.

Whatever his long-term impact on the world auto industry, Iñaki López is a showman and he knows how to work an audience.

"You will not receive copies of this speech or the slides, so please take notes. Later you will need to use these notes, so pay attention or you will look bad." From such an opening the audience was eating out of his hand.

The López sermon calls for a few quick jumps through history from 1750 to 1913, and then to a breathless pause in 1964. That year is significant because the Japanese industry produced only 600,000 cars then, Europe 7.28m and North America 8.37m. Car exports were virtually nil. Leap 28 years and what do we see? North America producing 7.46m cars with negligible exports, Europe making 12.77m but selling most at home, Japan producing 9.38m and exporting 1.83m to North America and 1.34m to Europe and emerging countries producing 5.09m.



Reuter

Paper chase: An animated paper model lures the public to the Seat Ibiza stand at the Frankfurt motor show which opened yesterday

Europe, last year America, beware!

Now we are in the midst of the third industrial revolution, says the prophet Iñaki, but it is more difficult to grasp than the first two. It is a revolution of ideas, principles and values.

Continuous improvement – *kaizen* to the Japanese – is yesterday's text, today it is the message of "quantum leap" improvements to generate value for the customers. Improvements of 5, 6 or 7 per cent are not enough, "it is 30 to 40 to 50 per cent type improvements that must be made," says Iñaki with his heavily Spanish-accented English racing to keep up with the flow of ideas.

The complete value-added chain from raw materials to the customer must be brought together and waste eliminated. Perhaps we shall end up with the "supra-enterprise" along the way, taking in all these elements, he says.

In the old world of dominant downwards values, manufacturers started with costs, added a profit margin and arrived at a price. Now in the brave new world of ascendant values, the customer dictates. You start with a market price, work backwards to add in a profit and you are left with what can be the cost. Now you must develop functions that can achieve that cost, says an enraptured Iñaki.

"Not to do this is like making clothes by hand or cars one by one. You will not survive." There are only two ways to go. Look for intelligent excuses – and lose.

Or put creativity into action – and win.

To questions from members of the audience not exhausted from note-taking, he insists that more than 90 per cent of German suppliers are behind him. The response from the German unions has been "fantastic".

To those worrying about growing queues of jobless from his ruthless cost-cutting, he replies: "Improvements in productivity generate more working places. All those that don't improve productivity will lose 100 per cent of their workplaces."

He doesn't like the term "killing" jobs. "Only those that don't realise they are in a revolution will disappear." The vision seems undented by the investigations of public prosecutors and allegations of industrial espionage by his former employers.

But it is still to be seen whether the prophet has reached the promised land or just another wilderness.

ABB gas turbines to challenge rivals

By Andrew Baxter

ASEA BROWN BOVERI, the Swiss-Swedish engineering company, yesterday threw down a challenge to its rivals in the fast-growing $12bn (£7.9bn) market for combined-cycle power stations by launching a range of advanced gas turbines which it claims are the most efficient yet.

The announcement could have a big impact on the sector, where companies such as General Electric and Westinghouse of the US, the Anglo-French GEC Alsthom and Siemens of Germany are ABB's main competitors. All the big players in the power equipment industry have spent heavily on increasing thermal efficiency of gas turbines, which produce "combined cycle" power when a steam turbine is attached to run from the gas turbine's exhaust gases.

ABB is claiming efficiencies of 58-58.5 per cent for its two new turbines; for the 50-cycle (Hz) networks of Europe and most of Asia and for the 60 Hz market in the US and elsewhere. The company says these efficiencies are 2 percentage points higher than values currently being quoted and 3 percentage points higher than others have achieved in combined cycle operations.

ABB has received one order for its new turbine – from Jersey Central Power and Light in the US.

Mr Fritz Gautschi, senior vice-president and general manager for ABB's gas turbine division, said the increased efficiency could save a utility as much as $40m in costs over the 15 years of a typical power station's use, depending on the price of fuel.

ABB said it hoped to capture a "sizeable" share of the 13,000MW market for large gas turbines. The company has lacked a truly large gas turbine to compete with machines from GE, considered to have the technological edge.

Mr Gautschi said ABB's new 50 Hz machine would pump out 365MW of power with a steam turbine attached, 35-40MW higher than its rivals.

Tokyo to outline trade stance

By Michiyo Nakamoto in Tokyo

THE US and Japan today begin a series of talks under a framework agreement aimed at ironing out bilateral trade and economic issues. They will provide the first glimpse of the new Japanese government's stance on trade.

The talks, agreed between President Bill Clinton and former Prime Minister Kiichi Miyazawa, will cover a broad spectrum of issues, including reduction of the Japanese current account surplus and improved market access for foreign companies in specific Japanese sectors. Since the framework talks were set up Mr Miyazawa has been replaced by Mr Morihiro Hosokawa.

An agenda for future discussions and possible co-operation is likely to be established at the meetings. Five areas for co-operation have been agreed between the two countries; Aids research, the environment, development of human resources, technology, and population planning in developing countries. But interest in the talks, being held in Washington, will focus on whether or not the US renews pressure on Japan to set quantifiable targets in opening up specific markets to US products and reducing its surplus.

Although Tokyo's stated commitment to deregulating markets has been welcomed by Washington, Mr Hirohisa Fujii, the new finance minister, yesterday renewed opposition to Washington's demand that it set a target for reducing the surplus.

In a joint statement issued after a July summit of the Group of Seven industrialised nations, the two countries called for a "highly significant" reduction in Japan's surplus. The US has been asking for a cut from 3 per cent of GDP to between 1-2 per cent, but Japan has resisted setting a numerical target on the grounds that this would lead to managed trade.

However, some Japanese industrialists say a quantifiable target should be set for the reduction.

Shell in dispute over oil platform deal

By Karen Fossli in Oslo

KVAERNER, the Norwegian engineering, construction and shipbuilding group, is in dispute with Norske Shell, the Norwegian subsidiary of the Royal Dutch/Shell group, over final settlement of a North Sea oil platform contract.

Kvaerner Rosenberg, a unit of Kvaerner, is seeking NKr483m (£45m) in compensation for extra work it claims the oil company demanded outside the original scope of the contract. Shell, in turn, is seeking NKr1.2bn from Rosenberg for alleged "wilful misconduct" over the contract.

Kvaerner said that during construction of the Draugen platform deck, at the Rosenberg yard in Stavanger, Shell approved substantial changed orders and additional work. The contract was originally valued at NKr834m.

"During its [the contract's] execution, Shell issued instructions and paid for supplementary work worth almost NKr1.2bn. This brings the value of the contract – excluding Kvaerner Rosenberg's disputed claim – to NKr2bn," Kvaerner said.

The contractor said three-quarters of more than 25,000 construction documents supplied by Shell to Rosenberg were received too late for it to meet the stipulated delivery schedule. "In addition the company received almost 30,000 change orders." Kvaerner said that despite much extra work, Rosenberg achieved 98.4 per cent completion of the deck when it was ready for delivery in mid-January.

Shell, however, requested Aker, Kvaerner's main Norwegian competitor, to undertake final completion and commissioning of the platform.

China faces steep EC duties on bikes

By Andrew Hill in Brussels

THE European Community is poised to impose heavy duties on imports of bicycles from China, in spite of claims that retail prices will rise as a result.

One Chinese diplomat in Brussels yesterday described the duties as unfair, and a leading exporter of Chinese bicycles warned that EC producers might try to increase prices of popular models as supplies were squeezed.

But the European Commission said the duties would protect the long-term health of the EC industry by stopping the Chinese from "dumping" bicycles on the market.

The Commission, which examines dumping complaints, has calculated that EC producers' share of the market fell from 37.8 per cent in 1989 to 30.2 per cent in 1991, while Chinese market share rose from 4.6 per cent to 10.5 per cent, or 2.1m bikes.

About 20m bicycles are sold on the EC market annually, but the Commission says sales have stagnated since 1991.

Chinese officials will pay a final visit to the Commission today in an attempt to defer the action, which is the latest in a series of dumping inquiries to have gone against Beijing. Definitive duties, which will increase the price of incoming Chinese bicycles by 30.6 per cent, should be imposed today or tomorrow, following approval by member states. A provisional duty of 34.4 per cent was imposed in March.

Chinese bicycles are not necessarily a cheap alternative to the popular mountain and city bikes which have dominated the EC market over the last few years. Many Chinese-made bicycles are imported into the EC and resold under well-known brand names. Such models can cost between £300 and more than £1,000 in department stores.

Mr Stephen Codron, a director of China Bicycles Company, believes importers will switch to other Asian suppliers – leaving the EC industry in the same predicament – while EC producers will take the opportunity to increase prices.

Brussels tightens Italian aid curbs

Canadian Tories pledge overhaul of social security programmes

Campbell kicks off campaign

By Bernard Simon in Toronto

MS Kim Campbell, Canada's prime minister, kicked off a seven-week election campaign yesterday by pledging an era of less government intervention, an overhaul of social security programmes and a tougher justice system.

She was speaking in Ottawa after asking the governor-general to dissolve parliament and call an election for October 25. Ms Campbell and Mr Jean Chrétien, leader of the opposition Liberal party, immediately set off on their chartered buses for what is likely to be a gruelling and close-fought campaign.

Both headed first for the province of Ontario which, together with Quebec, contains more than half the country's 295 constituencies and will be the focus of the big parties' drive for votes.

The Conservatives hold 153 seats in the House of Commons, followed by the Liberals with 79 and the left-of-centre New Democrats with 43.

The Liberals are the present front-runners, thanks partly to a collapse in support for the NDP and to the strength of the separatist Bloc Québecois in Quebec.

The Conservatives were able to rely on strong backing from Quebec nationalists for their back-to-back election victories in 1984 and 1988.

But observers also agree that the coming election is one of the most fluid and unpredictable in many years. Support for the traditional big three parties will be fragmented by the Bloc Québecois and, in western Canada, by the populist Reform party.

Ms Campbell indicated yesterday that she would portray herself as a fresh face for the 1990s, compared to the 60-year old Mr Chrétien, who has been in politics for over 30 years, including many years as a cabinet minister under Mr Pierre Trudeau.

The main thrust of the Liberals' campaign will be to portray Ms Campbell as a clone of her unpopular predecessor, Mr Brian Mulroney. The Liberals are due to release their detailed policy platform within the next week or so.

Ms Campbell was cautious yesterday to avoid the extravagant promises which marked the 1984 and 1988 campaigns. She said that "we live in tough times and Canadians have some tough questions for governments."

She pledged "a new leadership that respects the bottom line, and the basic needs of Canadians."

Reuter

Kim Campbell arrives for her meeting with the governor-general

Menem's drive for new term falters in Senate

By John Barham in Buenos Aires

TENSE negotiations behind closed doors in the Argentine Senate continued yesterday afternoon after President Carlos Menem's attempt to amend Argentina's constitution faltered on Tuesday.

Mr Menem wants to scrap the 1853 constitution's ban on successive presidential terms and run for re-election when his six-year term ends in July 1995.

To do so he must first win a two-thirds majority in both houses of Congress.

But on Tuesday, the first day of debate in the Senate, two members of the ruling Peronist party denied Mr Menem the majority by refusing to back the amendment. The president later cut short an official visit to Brazil.

Senator José Bordon, who has already declared he will seek the Peronist presidential nomination, said on Tuesday he would only support the amendment if the government established a consensus with the opposition Radical party. Senator Antonio Cafiero, who lost the Peronist presidential nomination to Mr Menem in 1988, also rebelled for the same reason.

The Peronists hold 30 of the Senate's 48 seats and had enlisted the support of two independent senators to reach the required 32 votes. Some Peronists are accusing the two rebel senators of betrayal and threaten to expel them from the party.

In yesterday's negotiations Peronists attempted to win over independent and Radical members and avoid a humiliating setback for Mr Menem.

Even if the government wins the Senate vote, achieving a two-thirds majority in the Chamber of Deputies will be more difficult. The Peronists have only 45 per cent of the lower house's 257 seats and are unlikely to win many more in mid-term elections on October 3.

Clinton's peace corps also help themselves

ALTRUISM might be back in fashion with America's youth, but the generation President Bill Clinton is calling upon to serve is very different from the one that volunteered for President John Kennedy's Peace corps 30 years ago.

Mr Kennedy stirred thousands to give up affluent lifestyles to teach in Africa, farm in Asia and build trenches in Latin America. In trying to capture the same idealism, Mr Clinton, who often harks back to the idealism of "Camelot", must appeal to good-hearted but hard-headed young people who want to help others – and themselves.

Mr Clinton's National Service Act, which has already passed the House and which was in the final stages of being passed by the Senate last night, would put young people to work on repairing the environment, teaching, refurbishing houses and performing other community service in return for a small wage and an education allowance.

"Young people today are very different than they were when I was in my young 20s," says 50-year-old Mr Eli Segal, who as director of the White House's Office of National Service has given substance to the president's plan. "I think they're far more practical, far more sophisticated about how things work, far less confrontational."

It is also a generation that faces what Mr Segal termed an "educational crisis" as the cost of tuition has soared beyond the reach of most.

Mr Clinton's plan is aimed at helping young people to serve and cover their tertiary tuition costs. Participants would provide a year of community service in exchange for the minimum wage of $4.25 an hour and an education allowance.

Congress scaled back the plan, cutting allowances from $10,000 for two years of service to $9,450 and limiting spending on the whole scheme to $1.5bn for the first three years. The White House estimates that about 20,000 students will participate in the first year.

It is a small start for a president who attracted support on the campaign trail from students and their parents saying that anyone who wanted a college education ought to be able to afford one. Proponents say the plan will fulfil another, more important, goal: bringing groups of people from diverse backgrounds to work together.

Framers of national service hope to attract a more diverse group of Americans than participated in previous service programmes. Peace Corps officials concede that, until the 1980s, volunteers were mostly white and middle- to upper-middle class. In 1982 only about 5 per cent of volunteers were minorities.

Lisa Bransten on national service that pays back in education

Ms Erin Moran, a 17-year-old from a middle-class area of Baltimore was stunned by what she was learning while helping refurbish a recreation centre in a rundown part of her home town.

"I was really naive about what went on in the inner city," she said. "Yesterday we met with other teenagers and we were talking about teenage pregnancy and they saw nothing wrong with it because there was always welfare and they saw nothing wrong with AIDS because they figured they wouldn't survive in the city very long anyway."

Mr Phillip Harris, aged 18, who grew up in one of Baltimore's toughest neighbourhoods, said it was important for people like Ms Moran to understand that improvements come gradually.

"We have a person in our group who felt like, 'I'm coming in to help people and in eight weeks we've got to make them change'. We sat her down and said, 'You can't change people so quickly'. Now she's dealing in reality," he said.

After a youth spent selling drugs and carrying weapons – and a month-long stay at a juvenile detention centre – Mr Harris is realistic about how much can be done, but he also wants to show youngsters in his neighbourhood that change is possible.

"By selling drugs and committing a lot of crimes I took a lot away from the community," he says. "A lot of the young people who are selling drugs now used to look up to me. Now I am trying to reverse things – make them look up to me in a positive light."

While Mr Harris wants to help his community, he is also studying for a business degree at a local community college and the $1,000 he receives for his work will help. After finding government programmes did little to help his family or their neighbours, Mr Harris puts his faith with the business community because, he says, they seem to understand their customers better than any bureaucracy.

The loudest critics of national service believe it would cost too much. Senator Nancy Kassebaum, a Kansas Republican, tried to reduce the cost for the first three years from $1.5bn to $800m and voted against the measure when the White House rejected her plan. Others in Congress proposed giving educational benefits only to those in need and making the money contingent on other scholarship programmes being fully funded.

Leading proponents of the measure such as Representative Dave McCurdy say the bill is not about education, but about service. "If you are only concerned about a college education then this is not the concept," the Oklahoma Democrat said. "The concept is changing the ethic in America from grants and loans to service."

Mr Jason Scott, a 24-year-old who started Youth for National Service to lobby for the plan, said it was up to his generation to heal the nation's ills.

"The country is getting more diverse, not less diverse and we know that we are the ones who are going to have to deal with that," he said. "We believe (national service) has the potential to engage a new generation of young people in service, young people who might not otherwise have the means or the opportunity to serve their country."

Guatemalan court reinstates Lobo

By Edward Orlebar in Guatemala City

GUATEMALA'S constitutional court has temporarily reinstated Mr José Lobo Dubon as president of Congress after he was ousted in a rebellion against his authority by a group of deputies on Sunday.

The court's decision, made on Tuesday night, reinstates Mr Lobo pending a definitive ruling expected within two weeks.

The move does not appear to have reduced tension between the two rival groups in Congress squabbling over how they should purge the institution of corrupt members. Congress's limited credibility with the Guatemalan public has plummeted since the crisis began.

Pressure to purge Congress came after President Ramiro de Leon Carpio last month called for the resignation of all 116 members in an effort to rid the country's institutions of corruption.

Opponents of Mr Lobo, a Christian Democrat, have said they will sue him after a congressmen was allegedly hit with a pistol butt on Monday night in a scuffle with his security guards.

Mr Lobo in turn says he will sue Mr Arturo Soto, promoted by the rebel deputies as president of congress in his stead, and 11 other congressmen who formed a de facto parliamentary leadership.

The Partido de Avanzada Nacional, a pro-business party which holds 12 congress seats, said it planned to withdraw in protest at the court's decision.

'Arafat bond' may target expatriate funds

By Julian Ozanne and Andrew Gowers in Jerusalem

THE DAY of the Arafat bond may be nigh. Mr Yassir Arafat's embryonic Palestinian authority in the West Bank and Gaza could tap wealthy expatriate Palestinian businessmen for financial support, and may finance public sector investment through a Palestinian bond, according to a confidential World Bank report.

The report, being drafted by World Bank economists in consultation with the Israeli government and potential donor countries, says a Palestinian government – to be established under the proposed Israeli-PLO peace deal – will need external financing of $1.5bn to $1.75bn in the five years of interim self-rule.

It expects at least $750m more in private capital inflows from Palestinian expatriates.

The money will be needed, the bank says, to fund public-sector infrastructure investments worth about $1.35bn over five years, predominantly on water supply, sewerage, waste disposal, roads, electricity, education and health.

In the longer term, the report adds, the "Palestinian entity" – code for what most observers expect to be a state – will have to invest a further $1.65bn in power generation (preferably as part of a regional power grid), expansion of road, health and education systems, and construction of airport facilities.

The report is intended as a framework for the international aid effort to underpin the expected peace agreement. Its recommendations will be discussed at a meeting at World Bank headquarters in Washington later this month.

The Bank also expects Palestinians to finance public sector development through external borrowing – which would be sustainable since the Palestinian entity will not inherit a crushing external debt.

It estimates there are about 200,000 Palestinian workers and businessmen living in the Gulf states and industrial countries. They include some of the largest engineering and construction magnates in the Arab world, many of whom have close affiliations with the PLO.

"Given the strong community ties among the Palestinians, it is likely that, in the wake of a peace agreement, a good fraction of these businessmen and professionals would wish to strengthen their links with the occupied territories through increased remittances, as well as direct investment in productive ventures," the report says.

The bank adds that the entity will benefit from their high-quality workforce – Gaza and the West Bank have the highest proportion of graduates of any Arab country – and from tourism to the area.

But it warns the future government against economic mistakes and issues some policy prescriptions, including suggestions it establish a free-trade area with Israel and liberal trading links with other Arab countries. It also recommends harnessing the energies of private entrepreneurs rather than relying excessively on the public sector.

"Political settlement and peace is a necessary, but not a sufficient, condition for economic development in the occupied territories," it says. "Much will also depend on the quality of economic management in the post-peace period."

Resignation hits Rabin as peace accord nears

By Andrew Gowers and Julian Ozanne

ISRAEL's coalition government was destabilised yesterday when Mr Aryeh Deri, the interior minister, resigned amid charges of corruption.

The move will weaken the government at a critical moment, when it is about to sign an historic peace agreement with the Palestine Liberation Organisation, but will probably not knock the deal off course.

Mr Deri's departure, reported by Israel television, came after a panel of high court judges had ordered the prime minister, Mr Yitzhak Rabin, to sack him along with Mr Rafael Pinhasi, deputy minister for religious affairs.

Both are members of the ultra-orthodox Shas party, which has six seats in the Knesset (parliament), and has been a vital centre-right coalition partner.

It was not immediately clear whether Shas would respond by replacing the two ministers or quit the government, which commands 62 votes in the 120-member Knesset.

If it did leave Mr Rabin would have to reconstitute his coalition with other right-wing religious parties. They could then demand concessions in domestic policy and in further peace negotiations – since Mr Rabin has pledged not to strike a peace deal at the head of a government relying solely on left-wing and Arab support.

However, once an agreement with the PLO is signed, Mr Rabin is widely expected to submit it to a free Knesset vote where, even with Shas out of the coalition, he could count on its support and the votes of defectors from right-wing parties to push the deal through with a substantial majority.

Mr Deri has been charged with fraud, misallocation of public funds, breach of public trust and diversion of interior ministry money to schools run by his religious movement.

Mark Nicholson adds: The executive committee of the Palestine Liberation Organisation was due last night to begin discussing the proposed agreement with Israel on self-rule. PLO officials said they expected the meeting to last two days.

Both the PLO and Israel still want to sign the agreement next Monday in Washington, but the two sides have as yet failed to agree on the wording of undertakings of mutual recognition.

Report warns of long-term threat to energy supplies

By David Lascelles, Resources Editor

WASTE in industrial countries and growing demand in the developing world pose a long-term threat to energy supplies, says the World Energy Council, a non-governmental body representing more than 100 countries.

Although world supplies are still abundant, it says governments should take early action to secure supplies. Growing environmental pressures also require a drive towards greater energy efficiency.

A study of the long-term prospects for world energy, published in London today by the council, says present consumption trends could lead to a more than doubling of energy use by the year 2020. But if strong energy efficiency measures are instituted, growth could be contained to about 28 per cent over that period, despite a more than 50 per cent increase in world population.

According to the report, known oil reserves are currently large enough to last over 40 years, and natural gas over 65 years. Coal reserves are large enough to last 250 years. But the report doubts that fossil fuels will last beyond the next century because, as oil and gas run out, the use of coal may be accelerated sharply.

The WEC believes coal and nuclear power are the two energy sources with strongest long-term prospects, provided the environmental problems associated with each can be resolved. But the report urges more rapid development of renewable energy sources such as solar, wind and geothermal.

The report warns that large sums of money will have to be invested in energy development. The report believes pollution reduction timetables set by international agreements, for example on carbon dioxide, are unrealistically tight. Not until the latter part of the next century does it foresee the level of atmospheric pollution declining.

Energy for tomorrow's world. World Energy Council. 320pp. £35. Kogan Page, 120 Pentonville Road, London N1 9JN.

Delhi acts to ease share market upset

By Stefan Wagstyl in Bombay and Shiraz Sidhva in New Delhi

THE INDIAN finance ministry yesterday acted to end uncertainty in the country's stock markets caused by an income tax investigation into the affairs of Mr Harshad Mehta, the broker at the centre of last year's Bombay securities scandal.

Officials held meetings with representatives of the income tax office and of the Securities and Exchange Board of India (Sebi), the securities watchdog which is concerned that the tax probe should not disrupt normal market operations.

Reports that the ministry had urged tax inspectors to conduct their investigation in a way which did not hurt investors' interests brought some relief to investors and brokers on the Bombay Stock Exchange.

The index of leading stocks, which had fallen 130 points since the start of the week, dropped a further 41.44 yesterday to close at 2,580.24. But brokers took comfort that the index finished 23 points above its opening level when sentiment was at its gloomiest.

They said confidence grew during the day as reports from Delhi, where the finance ministry meetings were being held, indicated that officials were taking investors' interests into consideration.

Last night the ministry made clear seizures of shareholdings by the tax department were limited to identified shares of a few companies held in the names of specified persons.

A statement said that "transfers relating to genuine transactions by all genuine investors including institutional investors in respect of shares lodged for transfer with the companies covered by the provisional attachment orders will be freed from the existing curbs after the necessary formalities are completed."

The release said there was "no reason for any apprehension in the minds of genuine investors or the broker community in this regard."

The income tax investigation began last year after Mr Mehta was arrested for his alleged involvement in the Rs42bn (£875m) scandal which rocked the Bombay securities market last year. Mr Mehta and other brokers were accused of trading illegally in the interbank securities market, often in collusion with bank employees, in order to syphon funds into the stock market.

The tax probe disrupted the market this week when it emerged that the income tax authorities had frozen dealings in large blocks of stock, which they claimed were being held by 134 different individuals and companies on Mr Mehta's behalf. The affected stocks are shares in nine leading companies including ACC, a top cement producer, and Reliance Industries, a chemicals and textiles group.

A CROWD of over 2,000 women (right), chanting Islamic and anti-US slogans, delivered a protest note yesterday to the American embassy in Khartoum over US accusations of Sudanese sponsorship of terrorism, Agencies report from Khartoum.

The embassy has cut the size of its staff and evacuated family members.

Sudan's hardline military leadership has responded angrily to the accusations. President Omar Hassan al-Bashir said on Tuesday that Washington had failed to produce any proof his country had allowed terrorist training camps on its territory. Lt-Gen al-Bashir, speaking in the Ethiopian capital Addis Ababa after a regional summit, also denied he was supporting Somali gunmen linked to Gen Mohamed Farah Aideed, the fugitive warlord, in their increasingly bloody battle with UN forces in Mogadishu.

Seoul warns Pyongyang over nuclear weapons

SOUTH KOREA warned yesterday that it might toughen its stance against North Korea on the nuclear weapons issue unless Pyongyang resumes contacts with Seoul by tomorrow, writes John Burton in Seoul.

North Korea last week offered to hold inter-Korean talks concerning the inspection of its nuclear facilities, but it later added preconditions for the meeting it had proposed for tomorrow.

It demanded that Seoul stop its support of international efforts to force nuclear inspections, and end "nuclear war games", an apparent reference to its annual Team Spirit military exercise with the US. Mr Hwang In-sung, South Korean prime minister, in rejecting the conditions told Mr Kang Song-san, the North Korean premier, that Pyongyang's demand "makes it doubtful if your side has a genuine intention of reopening dialogue".

North Korea suspended regular contacts with Seoul at the beginning of the year in protest against the holding of the Team Spirit exercise. It failed to appear at a meeting yesterday to discuss procedural matters for the talks tomorrow.

If North Korea boycotts that meeting, it could lead to the end of hopes for an quick resolution to the North Korean nuclear issue.

The US and South Korea have suggested they may ask the United Nations Security Council to impose economic sanctions on North Korea if Pyongyang does not make progress in nuclear inspection talks with both the International Atomic Energy Agency (IAEA) and Seoul by the end of month.

North Korea last week held inconclusive talks with the IAEA on allowing its inspectors to examine two nuclear waste sites that are at the heart of the dispute.

The IAEA, which has heard no response yet from Pyongyang for a proposed new round of talks in Vienna, will discuss the issue at its next governors' meeting on September 21.

The IAEA wants to inspect North Korea's facilities to determine whether Pyongyang is producing more plutonium than it has reported to the agency.

Tokyo ponders new boost for economy

By William Dawkins in Tokyo

THE JAPANESE government is considering a fresh public spending package and cuts in income tax to help retrieve the economy from the brink of recession.

Mr Masayoshi Takemura, chief cabinet secretary, said tax reforms and extra spending were among the options being considered for the economic stimulus plans to be announced later this month. Proposed business regulation cuts, announced last week, would not be enough, he said.

The package is likely to include loans for housebuilding and job creation, and spending on research institutes and telecommunications.

If agreed, this will be the third pump-priming plan in the past year, after a total of nearly Y24,000bn (£150bn) - in August 1992 Y10,700bn was allocated and another Y13,200bn came in this April.

Economic analysts believe their impact has so far been disappointing because government agencies have been slow to spend the cash on infrastructure.

Resistance to another spending package can be expected from the Finance Ministry, which will try to reduce its size, as in the previous two packages, on the grounds that the tax revenues to finance such spending are declining.

Prime Minister Morihiro Hosokawa is expected to unveil the deregulation, spending and tax plans some time before he visits the US on September 25 for his first meeting with President Bill Clinton. Washington's expectations are almost as high as those of the Japanese public, as it seeks evidence the government can live up to pledges to stimulate import demand so as to curb a record trade surplus.

Further evidence of the economic slowdown emerged yesterday when Sanyo Investment Research predicted that profits at Japan's top industrial companies will fall by just over 23 per cent in the year to next March. Sanyo's earlier estimate was for a 14.8 per cent decline, and it will be the third year that profits have fallen by more than 20 per cent. Sanyo attributes the downgrade to the yen's greater than expected strength and the impact of a wet summer on consumer spending.

Japan's coalition halves proposed party subsidy

By William Dawkins in Tokyo

JAPAN'S new government is to scale back plans for public subsidies for political parties by half, to heal a potentially embarrassing rift with its largest coalition member.

The seven coalition groups expect today to agree draft proposals for a Y300bn (£1.9bn) a year public political subsidy, said officials. This would replace corporate donations and is equivalent to Y250 per taxpayer each year.

Last month, the coalition partners provisionally agreed a Y600bn annual subsidy, only to be embarrassed when the defeated LDP counter-proposed Y300bn. This jeopardised the popular new government's image as the bringer of a change in political style from the LDP, whose downfall came partly due to public disgust at its dependence on large, sometimes corrupt, corporate donations.

Ministers hurriedly explained that the Y600bn figure was only tentative, after objections from the Social Democratic party, the largest coalition member, whose chairman, Mr Sadao Yamahana, happens to be minister for political reform.

The subsidy is part of a package of political reforms, including a new single-seat constituency electoral system, for debate at a special parliamentary session starting on September 17.

> In spite of the inevitable internal coalition wrangling, public confidence in the government appears hardly shaken

Public subsidies would fill some of the gap left by corporate donations, to be phased out after three to five years, according to early drafts of the package. The aim is for parties to compete with equal financial backing, instead of on their ability to wring cash from companies in return for favours.

In spite of the inevitable internal coalition wrangling to have emerged in the month since coming to power, public confidence in the government appears hardly shaken.

Three opinion polls yesterday showed that the administration's popularity remains high, as do public expectations. A Kyodo news agency poll gave Mr Morihiro Hosokawa's administration a 79 per cent popularity rating, a post-war high for any Japanese government, while the Asahi Shimbun newspaper gave it 71 per cent. The Mainichi Daily News recorded a 10 percentage point drop in the government's popularity over the past month, to a still high 65 per cent.

However, the real test of confidence in the the government will come when the public sees final details of the electoral reform plans as well as a hotly waited economic stimulus package.

World re-examines its Pretoria policy

By Our Foreign Staff

GOVERNMENTS yesterday began re-examining their policies on sanctions against South Africa after the agreement reached in Johannesburg on Tuesday night to form a multi-racial transitional executive council.

Australian and New Zealand officials were quoted as saying that Commonwealth nations were likely to move quickly, with one report saying an announcement on lifting remaining financial sanctions could come within 24 hours.

According to Mr Don McKinnon, New Zealand foreign minister, consultations among Commonwealth members were already taking place.

The US federal administration is meanwhile expected to welcome the decision on the transitional executive as a step in the right direction, but to avoid greeting the move too effusively.

In the US, most remaining sanctions are the result of state and municipal laws. In the absence of any concerted lobbying for their removal many local governments are likely to dawdle over their repeal.

Once the transitional council is in place, international financial institutions are expected to move quickly to bring their resources to bear in South Africa.

Mr Edward Jaycox, the World Bank's vice-president in charge of Africa, said recently that his organisation had identified projects totalling around $1bn (£648m) aimed at redressing the imbalance in the supply of basic services such as education, health, energy and housing to the country's white and black populations.

End of S Africa sanctions era in sight

Reuter

Nelson Mandela, Allan Boesak, regional chairperson, and clothing workers kick off the ANC's election campaign in the western Cape

THE breakthrough made this week by South Africa's constitutional negotiators towards establishing a multiracial government promises significant relief to an economy that is short of good news, writes Philip Gawith.

Agreement on a Transitional Executive Council (TEC), after many false dawns, has at last brought the end of the sanctions era in view.

Mr Nelson Mandela, leader of the African National Congress, has said the ANC will probably call for the lifting of remaining financial sanctions - most notably the embargo on international Monetary Fund/World Bank financing - by the end of the month.

It is likely also to mark the start of an era of considerably increased international development assistance. As Chief Emeka Anyaoku, secretary-general of the Commonwealth, made clear during a recent visit: "The international community wants to help and to help substantially once the next step has been taken towards representative government." The US and European Community have expressed similar intentions.

Although white South Africans have for years with bravado dismissed sanctions as ineffective there will be no disguising the joy when they finally go. While a minority found succour in the romance of the besieged *volk* in its laager, most longed to be rid of the burden of being an international pariah.

It could not come at a better time. Economists believe South Africa's net reserves have fallen as low as one month's import cover, while capital outflows and the lower gold price have driven the rand to a record low against the dollar.

Top of the list will be re-establishment of links with the IMF. Since declaring a moratorium on the repayment of part of its external debt in 1985 South Africa has been forced to run a current account surplus to finance more than $1bn a year in debt repayments. This has seriously hampered growth. Renewed access to the IMF will allow South Africa to run a deficit and growth prospects will be improved. Banks will also be much happier to do business in South Africa when it enjoys the financial backing of the IMF.

The IMF has made no secret in recent months of its willingness to lend to South Africa again, most recently in July when President FW de Klerk held talks in Washington with Mr Michael Camdessus, its managing director. The World Bank has also made clear it is ready to lend large sums, most for infrastructure and human resource development.

Mr Chris Stals, governor of the Reserve Bank, the central bank, believes that the TEC agreement will be seen by the IMF and World Bank as the signal that the time is ripe to re-engage formally with South Africa.

He said yesterday that in terms of the IMF's compensatory and contingency financing facility (CFF), South Africa is eligible for about $800m in assistance arising from balance of payments shortfalls related to the severe drought in 1992. The technical groundwork for the loan has already been done, but he stressed that an application would have to come from the finance subcommittee of the TEC.

Mr Dave Mohr, chief economist at the Old Mutual, the Cape-based life office, argues that when the world economy starts growing again, South Africa's current account will benefit more directly than in the past when its trade was hampered by such factors as having to accept a political discount on goods and incur the cost of routing trade through a third party.

Although nobody is expecting big capital inflows to the country, the normalisation of South Africa's international economic relations should help stop the haemorrhage on the capital account. In the year to June, the total net outflow of capital not related to reserves amounted to R9.8bn (£1.4bn). Mr Stals argues that this "is not a sign of economic weakness, but of the difficult political situation in which we find ourselves".

He believes that the removal of sanctions will allow investors to assess South Africa more in terms of conventional risk criteria, without "extraneous" political distractions.

There remain of course, as he is quick to recognise, ample reasons for believing that investors are likely to hold back until well after an election. At the very least, uncertainty about political stability, the shape of future economic policies, and the economy's seeming inability to emerge from a prolonged slump give considerable cause for caution.

From the point of view of the US investor there are other obstacles too. At the last count, 26 states, 90 local authorities and 24 counties still had sanctions in place. The effect of these has been to prevent US bank lending to South Africa and US pension fund investment in companies with South African ties.

The fact that some sanctions still remain in place against Namibia, which received its independence in March 1990, is a reminder of the obstacles that lie ahead.

Powers of central bank challenged

By Andrew Jack

THE Bank of England is facing the first full-scale challenge to its authority as a regulator to supervise and recommend the closure of banks in the UK.

The Lord Chancellor's department – he leads the judiciary in England and Wales – has this week convened a banking appeals tribunal under the 1987 Banking Act in what is believed to be the first instance of an institution triggering a formal appeal.

Bank of England officials are submitting evidence to defend their plea to a High Court judge last October, requesting the provisional liquidation of Mount Banking, a small Asian-owned bank. The tribunal was sought by the principal shareholders in Mount, Mr N. Shah and Mr S.B.R. Shah.

Details of the tribunal are secret, but the Lord Chancellor's office confirmed a three-person tribunal had been convened this week, chaired by Mr Jonathan Mance, QC. The two other members are a banker and an accountant appointed by the Chancellor.

The office said that there had been seven or eight previous attempts at an appeal in the past 18 months, but all had been rejected at preliminary hearings attended by Mr Mance. Most were withdrawn voluntarily.

The grounds for closure were doubt about whether the management of Mount was "fit and proper" and not that the bank might be insolvent. Unaudited figures for the bank at March 31 this year show assets of £188.6m against liabilities of £163.4m. There are also additional provisions conservatively estimated at £10m.

Members of the tribunal will determine whether the action taken by the Bank of England was justified and what measures should still be taken – which could fall short of withdrawing its banking license.

Documents circulated by accountants at KPMG Peat Marwick, Mount's administrators, show Standard Chartered, the international banking group, may make a "significant claim" against Mount, believed to run to many tens of millions of dollars.

Mr Andrew Milne, a solicitor with Zaiwalla & Co, acting for Mount's owners, said the Bank of England had petitioned for closure as a result of the Standard Chartered allegations, which he claimed were "proved completely false". He alleged investigators had conducted a "fishing expedition" to justify the closure on other grounds after they found no evidence supporting the claims.

Two weeks after its provisional liquidation, Mount was placed in administration. Last month creditors approved a voluntary arrangement permitting a number of options for the bank's future, subject to ratification this week.

Mount Banking has 3,000 depositors, mainly Asians resident in India and East Africa. Only a few live in the UK.

Lloyd's deputy blames workload for resignation

By Richard Lapper

MR STEPHEN MERRETT, one of the most controversial underwriters at Lloyd's of London, yesterday resigned as deputy chairman of the insurance market and from its ruling council following heavy pressure from other senior figures.

Mr Merrett's agency – one of the biggest in the market – faces substantial difficulties following a sharp fall in its popularity among Names, the individuals whose assets support the market.

Mr Richard Keeling, 48, deputy chairman of Lloyd's agency Murray Lawrence, was elected to succeed Mr Merrett as market deputy chairman.

In his letter to Mr David Rowland, chairman of Lloyd's, Mr Merrett attributed his decision to resign to an increased workload. "We have spoken a number of times over recent weeks about the problems that I have arising out of workload, already substantial and likely to increase as a result of the challenges and opportunities facing the Merrett Group," he said.

Last week, members' agents – who handle the affairs of Names and channel them into syndicates – explained that Names had lost confidence in the management of the Merrett group, and that capacity – or capital – supplied by them to Syndicate 418, the group's biggest syndicate, would fall sharply from about £150m in 1993 to about £50m in 1994.

As a result, Merrett has been forced to step up efforts to persuade corporate investors to back the group's syndicates. The group is currently negotiating with Marsh McLennan, the the US broker, and JP Morgan, the bank, about converting a company, set up earlier this year to provide reinsurance to Merrett syndicates, into an incorporated Name which would invest directly in the group's nine syndicates.

The Association of Lloyd's Names, the biggest organisation of Names, yesterday welcomed the resignation, suggesting that it could improve the chances of an out-of-court settlement in the long-running litigation between loss-making Names and agents at the market.

Names argue that Mr Merrett's interest as an underwriter who insures fellow Lloyd's agents against legal awards for negligence conflicts with his position as a member of the council, at a time when the Lloyd's council could be involved in helping negotiate an out-of-court settlement.

Road to riches: Gainsborough's Peasants Going To Market may fetch about £4m at auction

Peasants go to art market

By Antony Thorncroft

PEASANTS Going To Market, one of the finest landscapes by the 18th century British artist Thomas Gainsborough, is to be sold at Christie's in London in December.

A price in the region of £4m is anticipated, easily a record for the artist.

The painting, being sold by Royal Holloway and Bedford College, part of London University, is from a fine collection of paintings given to the college by its founder Thomas Holloway in 1886. His aim was to inspire the students.

Last year Royal Holloway received permission from the Charity Commission to sell three pictures to establish a fund to maintain its building, at Egham to the south-west of London.

One picture, Turner's, Van Tromp Going About to Please his Masters, was sold earlier this year to the Getty Museum of Malibu, California, for a record £11m.

It had previously been offered to British galleries and museums, but the price was way beyond their means.

The Gainsborough was also offered to British art institutions. It was bought by Holloway at Christie's in 1883 for 2,700 guineas – before decimalisation in 1971, a guinea equalled one pound one shilling (now £1.05).

The college has made no decision about disposing of the third painting, Constable's View of the River Stour near Dedham. However, with the cost of maintaining its 800-room building set to increase, pressure to sell the Constable could mount.

The college's collection of Victorian art, which includes works by Millais, Frith and Landseer, is to be kept intact.

Britain in brief

Government to press on with rail sale

The government's determination to proceed with the privatisation of British Rail was reaffirmed last night by Mr John MacGregor, transport secretary.

He clearly indicated that in spite of uncertainty about the attitude of some critical Tory backbenchers, the Commons will be asked to overturn the amendment made to the Railways Bill by the House of Lords. It would permit BR to bid for franchises to operate passenger services.

The amendment, which the government claims would undermine the whole franchising process, received favourable comments from Tory backbenchers representing constituencies in Kent and other parts of the south-east who are worried about the implications of privatisation for commuter fares.

With its majority reduced by recent by-election reverses, even a small rebellion by Tory backbenchers would cause anxiety for the government because the Lords amendment will have the backing of most opposition MPs.

Doubts delay Thorp accounts

British Nuclear Fuels' annual report and accounts, which had been expected last week, may not be published until the end of January because of uncertainty about the future of its controversial Thorp reprocessing plant.

BNF said "we are hanging on as long as possible until we get a clear picture on Thorp".

Testing of the Thorp equipment began again yesterday, after a leak of nitrogen dioxide gas on Tuesday afternoon. BNF said the cause of the leak was the testing equipment, not Thorp. The government has already said that it is "minded" to give the go-ahead to the plant. It will make a final decision after public consultation, due to end on October 4.

Union seeks compensation

Trades unions representing Swan Hunter employees have launched an attempt to obtain compensation of up to £1m in total for 420 workers made redundant from the Tyneside shipbuilder by receivers Price Waterhouse.

At an industrial tribunal in Newcastle, the Tyne Confederation of Shipbuilding and Engineering Unions said there was no consultation before the 420 were told on May 28 they were being made redundant.

Shell platform refurbishment

Shell is to refurbish its Dunlin production platform in the North Sea at a cost of about £100m. The project will extend the platform's life into the next century and enhance safety.

Shell said: "Until fairly recently we would have been looking at Dunlin nearing the end of its viable life by around the turn of the century. Now this has been pushed well into the next century."

Dunlin began operating in 1978 and produces around 27,000 barrels of oil a day. It also processes oil from the nearby Osprey development.

Post Office 'needs freedom'

The Post Office needs to become more commercial by being allowed to break free from Treasury financial constraints and gain access to capital markets for investment funding, says a report by the consultants Economists Advisory Group for the postal unions. It also recommends that the Post Office adopts a "more arm's-length relationship" with government.

Inflation outlook good

Inflation expectations continued to fall last month with headline and underlying retail price inflation subdued and labour costs and wage settlements at very low levels, the Treasury said. In its monthly monetary report, the Treasury remained bullish about prospects for growth saying that recent figures pointed to "very encouraging trends" even though some indicators weakened last month.

Less cash for pollution body

The National Rivers Authority, one of the most vigorous pollution watchdogs, will peg its spending at the same level for the next three years partly because of a fall in its grants from government.

In the year to March 1993 it spent £437.4m, nearly £8m less than in 1992. Half was spent on flood defence and more than a third on improving water supplies and quality.

Clash expected on waste

The government is heading for another clash over European environment policy after it defended its methods of disposing of hazardous waste.

If Britain loses its battle over the form of a proposed European Commission directive, it might have to incinerate waste now disposed of in landfills or rubbish dumps, adding significantly to costs. In a report, it argues that the practice of mixing industrial and household waste together on the same site – co-disposal, which is common in Britain – is safe.

Shoes find good homes

More than 3,000 pairs of counterfeit Dr Martens, the British shoes famed for their tough image, have been seized in Hong Kong in raids organised by the UK manufacturers.

The shoes, which normally would have been destroyed following the raids, have been shipped back to Britain where R Griggs, the footwear company, gave them to Oxfam, the relief agency. Oxfam intends to send the shoes to aid projects in Somalia, Afghanistan and the former Yugoslav republics.

Imposing a permanent injunction on the counterfeiters, who have not been named, a Hong Kong court awarded R Griggs HK$995,000 in damages and costs.

Union congress meets AFL-CIO on mines dispute ● US-style boycott at Zurich Insurance ● Toyota and Nissan called 'forward-thinking'

Hanson unions plan worldwide link-up

By Robert Taylor, Labour Correspondent

A WORLD trade union council is to be established representing workers employed by companies owned by Hanson, the conglomerate.

The move was announced yesterday after a meeting of British Trades Union Congress leaders with representatives from the AFL-CIO, the US trade union body, and the United Mineworkers of America.

The proposed council, to be a permanent organisation with worker representatives from Hanson subsidiaries worldwide, is intended to co-ordinate union strategy across Hanson subsidiaries. The TUC and AFL-CIO said they would seek a meeting with the company to discuss creating a joint company-union council.

Yesterday's announcement is the latest response to the current strike in the US by miners, including 17,000 employed by Peabody, the biggest private coal company in the US and a wholly owned Hanson subsidiary.

The strike, which has been going on since February, is against the Bituminous Coal Association, of which Peabody is a member.

The United Mineworkers of America are demanding that jobs should be offered to unionised miners in new pits when exhausted mines are closed.

Lord Hanson told the TUC earlier this summer that Peabody's industrial relations policy was decided in the US and not in Britain.

The Peabody strike in the US has become a bitter struggle over the future of trade unionism in the coal industry. As the leading negotiator for the mine owners, Peabody is setting the pace for non-unionism in an industry where two thirds of the 100,000 miners are still organised.

The close involvement of the TUC and the AFL-CIO in the Peabody strike reflects a growing partnership across the Atlantic between the two trade union bodies.

They want to establish more global organisations like the new Hanson World Trade Union Council to press for the establishment of social clauses established by the International Labour Organisation and the OECD in agreements with global corporations.

Mr Martin Taylor, vice-chairman of Hanson, made no comment about the proposal to establish a joint company-union council. "We have excellent industrial relations," he said.

MSF, the technical union, has announced what it called a US-style corporate campaign against the Zurich Insurance Company. The union is protesting against Zurich's decision to derecognise the union, which has 1,000 members employed by Municipal Mutual Insurance, acquired earlier this year.

The campaign involves legal action, lobbying, advertising and efforts to persuade Zurich's customers to put pressure on the company. It falls short of a boycott of Zurich's activities. "For many people, fear of unemployment is so great that traditional action is no longer an option," said Mr Roger Lyons, MSF general secretary. "This campaign is a radical response to the reality of anti-union legislation".

THE EROSION of employment security in Britain is creating an unstable society and contributing to the rise in crime, Mr John Monks, the TUC's general-secretary-elect warned yesterday, David Goodhart writes. In his first speech to the congress at Brighton, Mr Monks said "overmighty unions" were a thing of the past. "Dictatorship of the bad employer" was today's reality for far too many people, he said. His address was politely rather than enthusiastically received by the congress. Developing his theme of the decline of the "steady job", Mr Monks said: "What's on offer today is fixed-term contracts, contract working, part-time working, all too often forced down people's throats. It's as true now for the white-collar professional as it is for the manual worker" Photograph: Ashley Ashwood

Japanese companies praised

By Diane Summers, Labour Staff

JAPANESE-STYLE working practices should no longer be seen as "alien" by UK workers, the TUC agreed yesterday, as it backed union agreements with motor companies Nissan and Toyota.

Two years ago a motion passed by the annual congress described Japanese methods, including the use of teamworking and quality circles, as "alien". The motion angered inward investors and caused embarrassment to senior TUC officials.

Yesterday's motion noted that "unions have created the conditions in which British manufacturing is able to compete with foreign-based companies. In particular, union agreements such as those with Nissan and Toyota are no longer seen as 'alien' working practices and have been emulated by companies such as Rover."

Mr Gavin Laird, AEEU craft union general secretary, said workers at Nissan and Toyota had excellent pension rights, first-class training opportunities, above-inflation pay rises and maternity and paternity leave entitlements better than other car companies.

Mr Laird said: "We have not had one redundancy since these companies came . . . British workers in partnership with forward-thinking companies like Toyota, Komatsu, Bosch and Nissan have all delivered unprecedented levels of success – achieved in spite of, rather than because of, our government."

Protest on electricians defused

By Robert Taylor

A WALKOUT by 11 unions from the floor of the congress to protest over the planned return of the electricians' section of the AEEU engineering union to the TUC was narrowly averted yesterday after the intervention of the new TUC general secretary, Mr John Monks.

The union leaders involved agreed to wait for the outcome of a special TUC general council meeting on the issue, to take place this morning, before deciding on their next move.

But the issue has become embarrassing to the TUC, which is trying to look to the future.

The 11 unions – including the TGWU general union, the construction union Ucatt and the GPMU print union – remain dissatisfied with the peace formula agreed last week by the TUC general council to allow the electricians to return to the TUC, after six years' absence.

The TUC general purposes committee had rejected the unions' motion for an emergency debate on the subject. The unions had called for a reassessment of the electricians' reaffiliation issue, to be undertaken not later than January 31 next year.

After finishing his first keynote speech, Mr Monks had to leave the platform and spend an hour arguing with the 11 unions. With television cameras outside the meeting room's glass door, Mr Monks had to use all his conciliatory skills to head off trouble which would have tarnished his inaugural address.

The 11 unions want an unconditional AEEU guarantee to abide by TUC rules, its acceptance of TUC dispute committee awards, and an end to AEEU recruiting in parts of the construction industry.

Directors 'boost earnings by 12%'

By Lisa Wood, Labour Staff

TOTAL earnings of top company directors rose by an average of 12 per cent in 1992-93, nearly three times the average increase gained by the workforce generally, say figures published yesterday by Income Data Services, the employment research group.

The analysis of directors' renumeration is drawn from annual reports from FT-SE 100 companies covering trading years ending between September 1992 and March 31 1993. The average increase for the workforce to June, according to government figures, was 3.5 per cent.

IDS also gave the median increase of 8 per cent for top directors, which it said may perhaps more accurately reflect the situation because average figures were heavily influenced by large increases. There was an enormous range of increases and decreases around the levels, IDS said.

The highest increase was at Carlton Communications, the media group, where the chairman's total emoluments jumped by 84.2 per cent to more than £530,000 – made up of a 42.5 per cent salary rise and a performance-related bonus of £120,000 from a newly established scheme.

IDS said: "In a spirit of greater openness the annual report outlines the rationale for the rise."

Carlton yesterday pointed to a special remuneration committee's report. It concluded that the chairman's salary "did not recognise his contribution to the company or its progress over the last year, nor did it reflect the market level for such a position."

At the other end of the spectrum total earnings of the food group Argyll's top director dropped by 43.9 per cent. IDS said this reflected the fact that a long-term bonus was paid in the preceding year and such bonuses were awarded only every three years.

Major attacks Euro-sceptic MPs

Financial Times Reporters

GOVERNMENT hopes of an autumn recovery in popularity were boosted yesterday by a largely warm response from Conservative activists to a rapid tour of south-west England by Mr John Major, the prime minister.

Mr Major underlined his determination to regain control by launching a scathing attack on the Conservative Euro-sceptic wing, which he blamed for much of the disunity which has dogged the party since the 1992 general election.

He blamed many of the government's difficulties on its small majority in the Commons. "He was very vehement indeed on the 20 or so dissident MPs," said one official. "He said this effectively reduces his majority to five."

The trip marked the start of a government attempt to fight back from the battering it has taken in the last year over Maastricht and the economy.

Mr Major signalled his intention to take a firmer grip on the government by giving a clear indication that spending on health and social security will be cut in the long term.

The pledge, in an article written for evening newspapers, will increase his room for manoeuvre in the face of a threatened rebellion by right-wing cabinet ministers seeking spending cuts in the November budget.

Mr Major's helicopter trip to the south-west was ridiculed by Mr Paddy Ashdown, the Liberal Democrat leader, who claimed it reflected Conservative "panic" about the party's ebbing support in the region.

MANAGEMENT: MARKETING AND ADVERTISING

Shape of things to come

Philips, the Dutch electronics group, has announced an abrupt change of design policy in response to environmental concerns and a growing sense that product design should do more to reflect the cultural identity of target markets.

Speaking at the Design Renaissance Conference in Glasgow this week, Stefano Marzano, the company's director of corporate design, called for a "new ethic" within the industrial design profession. "As we approach the millennium, we are being confronted with the effects of a gross imbalance in material circumstances around the world. We must try to restore the balance in our natural environment and in our social and cultural environment."

Conferences on design often include such statements. The difference is that Marzano speaks from a power base within a large-scale manufacturing industry. If pursued to its logical conclusion, his sentiment would represent a U-turn for Philips which followed a globalist design policy until Marzano's appointment in 1991.

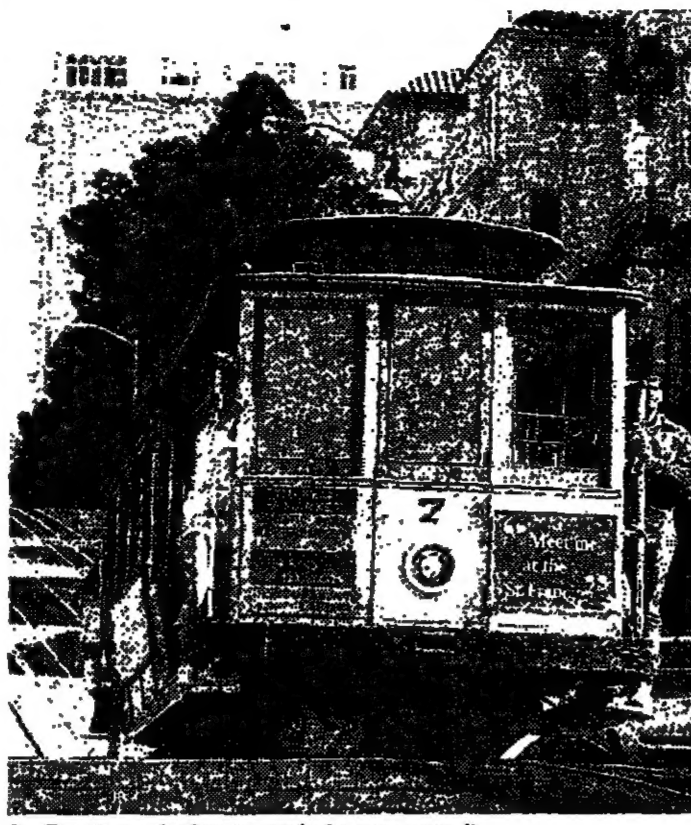
Philips makes identical "global" products in its manufacturing sites worldwide. It now proposes to reflect the cultural preferences of segmented markets in its products.

The shift sends an important signal to other manufacturers. Moves are in hand at Philips to factor new thinking about sustainable growth and product life-cycle assessment into the development process. But Marzano extended the scope to social and cultural issues. Adopting such a policy would amount to a new ethical standard. "We must not fall into the trap of designing products with features people don't need. What we can do instead – and this is where we should be competing – is to give these products cultural significance and value."

Hugh Aldersey-Williams

US companies are recognising the buying potential of the homosexual community, writes Kate Button

The gay consumer



San Francisco: valued customers in the gay community

With US President Bill Clinton recently achieving some success in his attempt to lift the ban on gays in the military, plus his appointment of a leading lesbian politician, Roberta Achtenberg, to the White House, the homosexual community is gaining wider social acceptance in America. At the same time companies in the US are taking increasing note of gays as a distinct consumer group.

Approximately 10 per cent of the adult population, or 18.5m people, is thought to be homosexual in the US. So the new attention is, perhaps, hardly surprising.

"There is little loyalty today from the consumer, but we find that gay consumers exercise great loyalty to those companies that support or recognise them," says Taylor Ingraham, director of marketing for the North American division of Virgin Atlantic Airways.

There are enormous benefits attached to tapping into the gay market. As the majority of like-sex households are dual salaried without children, they fit into the marketers favourite bracket of big spenders with high disposable income. According to Rick Dean, the senior vice-president of "Overlooked Opinions", a Chicago-based polling and market research firm specialising in homosexual consumers, the average gay couple has an annual income of $50,000 (£33,500). Dean maintains that gays are avid travellers and purchasers of high-quality products in almost every market sector.

Consequently, industry leaders such as Banana Republic, Giorgio Armani and Virgin Atlantic Airways have begun advertising their products in Out magazine – one of approximately 150 gay publications in the US.

But does gay marketing work? Banana Republic refuses to comment on the motives behind its gay marketing programme but will say the company is planning to continue the advertising campaign in Out magazine for the foreseeable future – in itself proof that the programme is working.

Ingraham, on the other hand, is able to identify tangible results from Virgin's alternative marketing campaign and says: "We have made a number of large-scale bookings from these ads. Plus, we have had calls from people thanking Virgin for the advertising and for addressing them specifically. Like any other sector of the community, gays will support those companies and organisations that support them."

Joseph Ellert, a freight forwarder with an international shipping company based in San Francisco, regards himself as a classic gay consumer. He applauds those companies that recognise him and other homosexuals as valuable customers.

"We have the bucks, in fact we have more money to spend than many other sectors of the market. If I see something advertised in the gay media, I am more likely to take a second look at that product and consider purchasing it, than if it was advertised in a straight publication. It shows that the company recognises we exist and addresses us directly," says Ellert.

It would appear that corporate America is starting to wake up to the power of the gay consumer. While undertaking market research for various clients considering a launch into homosexual markets, Dean found there are business opportunities abounding in this traditionally ignored sector.

As a result he set up a long-distance telephone company in competition with AT&T, Sprint and MCI. "Community Spirit" allocates 2 per cent of every telephone bill to the subscriber's chosen gay, lesbian or Aids charity. "We took a benign, non-eventful product and gave it a gay identity," says Dean.

Within seven months of the launch, Community Spirit has 20,000 subscribers and attracts on average 1,000 new accounts a week. Among its subscribers are not only gay consumers, but parents of children who have Aids, individuals sympathetic to the gay concerns and issues.

But if such profit and altruistic benefit are to be achieved from courting the gay market, why haven't marketing gurus tuned in earlier?

According to Angie Novak, product manager of Paper Moon Graphics based in Los Angeles, some companies are still sensitive to a possible stigma attached to associating their products with a gay market. She believes that less progressive companies are afraid of alienating "straight" consumers who might prefer not to purchase products and services openly targeted at the gay sector.

When Paper Moon first launched its "alternative lifestyle" line of greetings cards, featuring gay couples and gay scenarios in a clean and decent but humorous manner, the line did well in big cities such as San Francisco, Los Angeles and New York. "But we came across some challenging buyers in less progressive areas, like Salt Lake City," recalls Novak.

Paper Moon plugged a gap in the $5.3bn greetings card market, which was not being met by industry leaders. Furthermore, Paper Moon donates 5 per cent of "alternative lifestyle" proceeds to gay-affiliated charities.

Equally, Ingraham clearly states that Virgin Airways is not afraid of alienating straight customers by attracting gays.

"Why should there be a stigma against gays?" she asks. "We don't exercise any stigma against heterosexuals. People are people, they are all the same.

"Our gay advertising is not targeting gays any differently from other consumer sectors. We are just targeting them in an environment they enjoy and in which they feel comfortable. My primary aim is getting as many people on board our planes as possible."

The US is not alone in identifying the advantages of courting a gay clientele.

A former female buyer in a leading UK menswear chain noticed a gradual increase in sales of g-strings, thongs and "skimpies" for men.

"Branch managers were demanding higher stock levels, as they claimed women were buying them for their husbands and gays were buying them for their partners, their friends and themselves." The buyer, whose career blossomed as a result, recognised that branches in towns with a strong gay affiliation sold greater quantities of the risqué men's underwear than branches in other areas.

While some companies attribute their success in gay marketing to the fact that they support the gay community by contributing to affiliated charities, others are discovering that if the product is right and the marketing is correctly targeted, success will follow in the gay market – as in any other sector.

Not just a question of price

Guy de Jonquières examines the new challenges facing retailers

Branded consumer goods manufacturers would do better to meet shoppers' growing demands for better value for money by improving product quality and service, rather than simply cutting prices, according to the Henley Centre*, a UK market research company.

The company says opinion surveys for the latest edition of Frontiers, its annual study of European consumer markets, have found that while recession has made low price a more important issue for some consumers, for most it is still far from the overriding consideration.

Indeed, in Britain, France, Italy, Spain and the Netherlands, fewer consumers than two years ago said they always looked for the cheapest products.

The only exception to the trend was Germany – particularly the eastern part of the country.

However, European consumers are also becoming more insistent on getting what they pay for. Fewer than in 1989 – at the peak of the economic boom – said they believed that highest price equalled highest quality.

This shift in perceptions was most pronounced in relation to cosmetics, and smallest in relation to wine, spirits and furniture.

As these examples suggest, judgments on what constitutes good value differ widely, depending on the type of product in question.

For instance, almost three quarters of consumers named lower prices as the best way of improving the value for money of clothing. But fewer than a third said the same of food, with twice as many saying what they most wanted were products containing more natural ingredients.

But the Henley Centre says the biggest challenge confronting European consumer goods manufacturers in the value-conscious 1990s is the growing popularity of retailers' own-brand products.

Increasingly, European consumers prefer supermarkets' own-brand lines not only because they are cheaper than manufacturer brands, but also because they are perceived to offer equal or superior quality. "The key point is that the "best" brands are now often the retailer ones," the Henley Centre says.

The most striking evidence of this trend is provided by a survey of customers of Albert Heijn, the leading Dutch supermarket, who were asked to compare the retailer's own-brand products with those of Nestlé of Switzerland, the world's largest food manufacturer.

On all the criteria chosen – which included trustworthiness, product innovation and packaging, as well as price – Albert Heijn was rated far ahead of Nestlé. The retailer's biggest perceived advantage was in caring about its customers.

The Henley Centre concludes consumer manufacturers need to respond to these challenges by working harder to improve the performance and functional qualities of products and relying less on pure imagery to sell them.

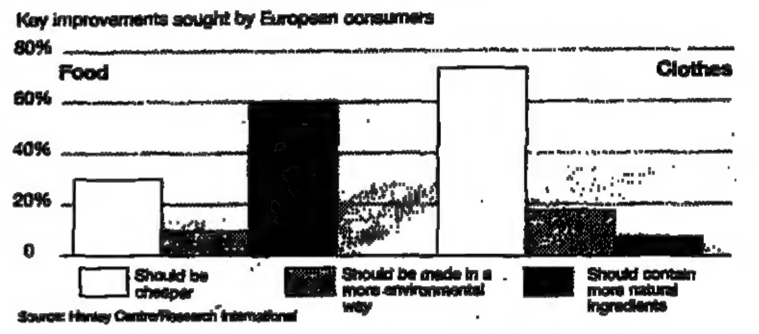
They also need to find new ways to communicate directly with consumers which do not involve going through retailers.

In particular, they should put more emphasis on loyalty programmes, after-sales support and service.

*Henley Centre, 9 Bridewell Place, London EC4V 6AY. Tel: 071-353 9961.

How to keep the customer happy

Key improvements sought by European consumers



Source: Henley Centre/Research International

PEOPLE

Gestetner: Inchcape takes hold

Inchcape, the international services and marketing group which in May took a 15 per cent stake in Gestetner Holdings, is strengthening its ties with the struggling office and photographic equipment distributor.

Stephen King, 44, Inchcape's director of financial control since 1987, has been appointed finance director at Gestetner. He replaces Brian Copsey, who is leaving to live full-time in Monaco, where he has been resident since 1986.

King will be continuing a close working relationship with his current boss, Rod O'Donoghue, Inchcape's finance director, who joined the Gestetner board as a result of the May deal, along with Andrew Cummins, Inchcape's strategic director.

In spite of the close ties between the two companies, King's name was put forward by an international executive search agency, which came up with five candidates. The choice was finalised after David Thompson, until recently non-executive chairman of Rank Xerox in the UK, agreed to move to Gestetner as part-time chairman.

Inchcape has an option to increase its holding in Gestetner to 25 per cent by July next year. Ricoh, the Japanese photocopier manufacturer, already has a 24 per cent stake in the company, which is the world's largest independent distributor of office equipment.

Gestetner's Australian management, under Basil Sellers as chairman and chief executive, moved the group away from stencil duplicators towards photocopiers, but also made an ill-judged expansion into the photographic equipment market. Sellers remains on the board as a non-executive director.

Lord Kingsdown, (above) the former governor of the Bank of England Robin Leigh-Pemberton, has picked up his first non-executive directorship. The job is a plum one, too. He is to join the board of Glaxo, Europe's largest pharmaceuticals group from the beginning of October.

He joins an illustrious board which includes Lord Howe, the former cabinet minister, the ubiquitous Sir John Cuckney, and Professor Sir Richard Southwood, vice-chancellor of Oxford University.

■ Clive Leach, group chief executive of YORKSHIRE-TYNE TEES TELEVISION, also becomes chairman on the retirement of Sir Derek Palmar. Ward Thomas becomes deputy chairman replacing Sir Ralph Carr-Ellison, who remains chairman of Tyne Tees, and Victor Watson becomes chairman of Yorkshire Television.

■ Bob Knighton, formerly director, group IT, has been appointed md, operations division, and Gareth Jones, formerly director retail operations, is appointed Treasurer of ABBEY NATIONAL. They both join the board. Charles Toner, formerly md, new businesses, becomes md, retail division. John Bayliss, the deputy chairman, will retire at the end of the year.

■ John Malone, md of Mortgage Shops and a director of Slater Hogg & Howison, has been appointed to the board of TSB PROPERTY SERVICES, their holding company.

■ Graham Waddell has been appointed a director of SPEIRS & JEFFREY.

Preacher to help the angels

Venture capitalists tend to be snooty about accountants despite the fact that many come from the same background. A common complaint is that once an accountant gets involved deals become bogged down in reams of financial forecasts and scenarios.

But few venture capitalists would deny the contribution that John Hustler has made to the industry over the years. As head of venture capital at KPMG Peat Marwick, Hustler, has been an indefatigable toiler in the many committees set up to consider arcane issues such as the valuation of unquoted investments and performance measures for venture funds.

After Eton and accountancy training, Hustler, 47, became a partner at Peats in 1983. He has since helped the European Commission devise a venture capital scheme, advised three UK small firms ministers on venture issues and spent two years as treasurer of the British Venture Capital Association.

He is now to practise what he has been preaching to many other entrepreneurs and is setting up on his own as a consultant. As Hustler Venture Partners he plans to advise entrepreneurs seeking funding. "I want to look at the deals the venture capitalists don't back to see if I can help turn them into fundable propositions," he says. One area he hopes to develop is that of helping "business angels", wealthy individuals with a commercial background, to back new ventures. Hustler is particularly keen to get more money into early stage ventures.

This could prove quite a challenge because the venture industry has moved away from backing start-ups and early stage companies in recent years. But Hustler is not afraid to stick his neck out. He has been a vocal defender of the role of the accountant in the venture capital process when others have kept their heads down.

Jon Foulds, chairman of Halifax Building Society since 1990, has been appointed an independent member of the Bank of England's board of banking supervision, otherwise known within the bank as "Bobs". He takes up his appointment to Bobs following the death of Nigel Robson in February this year.

A former chief executive and deputy chairman of the venture capital 3i group, the 61-year-old Foulds holds a number of other directorships including Eurotunnel, London Atlantic Investment Trust and Mercury Asset Management.

In mid-1990, he left the engineering and aerospace group Brammer where he had been non-executive chairman from 1988.

An advisory body, Bobs has a widely roving brief to speak to the governor of the Bank of England on a variety of issues, particularly general principles and policy concerning supervision of institutions which are authorised to act under banking legislation.

It has teeth, if it cares to use them; during its last financial year, 1992-93, a period of upheaval in the aftermath of the collapse of BCCI, it met 19 times as opposed to its more conventional 11.

"Appointments to the board are made jointly by the governor of the Bank and the Chancellor of the Exchequer, and its members have the right to speak directly to the Chancellor if they feel the advice they are giving is being disregarded," says Foulds. The board has six independent and three ex-officio members from the Bank – the governor, deputy governor and head of banking supervision.

The shooting, skiing and tennis-playing – "when I have time" – Foulds will receive a remuneration of £11,000 annually for his five-year stint at the board.

FINANCIAL TIMES SURVEY

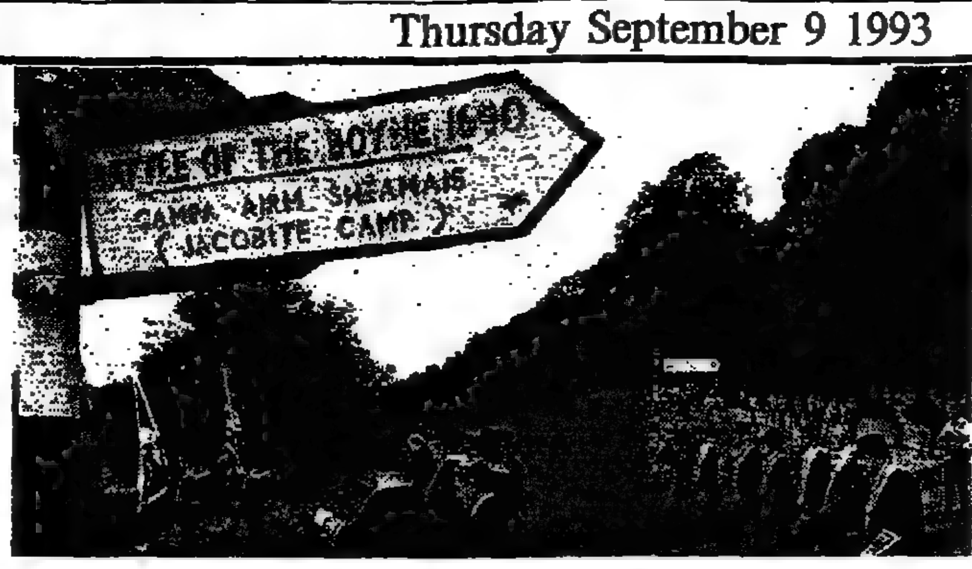
NORTHERN IRELAND

Agriculture and the food industry enjoy a 'clean and green' reputation: Page 2

An energetic rebuilding programme has given new life to Londonderry: Page 3

Thursday September 9 1993

A Korean-owned video recorder factory in Antrim   Picture: Crispin Rodwell



Orange Order marchers at the site of the battle of the Boyne – in the Irish Republic   Picture: Pacemaker Press, Belfast

In the UK, Belfast airport is second only to Heathrow in its volume of domestic traffic   Picture: Tony Andrews

Signs of change are in the wind

Terrorist violence continues, but the economy is looking up, business confidence is strong, and cross-border economic co-operation brings hope for better political relations. Tim Coone reports

"THERE have been no bombings or sectarian-linked murders in Northern Ireland now for the past five years.

"The so-called 'permanent ceasefire' by the IRA and Loyalist paramilitaries has held, and British troop levels in the province have been reduced to only 10 per cent of what they were in 1993.

"Negotiators from the unionist and nationalist camps, together with representatives of the British and Irish governments, under EC chairmanship, are now entering their final phase of negotiations for a permanent settlement of a dispute that has divided the people of the island since 1921.

"The settlement plan is expected to be put to a simultaneous referendum in both parts of Ireland within six months of the signing of the agreement by all parties".

OF course such a scenario is futuristic fiction. But it is not fantasy.

For this vision of a future settlement is central to the only publicly-acknowledged political dialogue taking place in Northern Ireland since the round-table talks between the main political parties in the province broke down with no agreement last November. That dialogue is between Mr John Hume, the leader of the Social Democratic Labour Party (SDLP), and Mr Gerry Adams, the leader of Sinn Fein – the political wing of the IRA.

Attacked by the Unionists for what they say is an effort to form a "pan-nationalist front", Mr Hume says the dialogue is "about agreeing an overall strategy for a lasting peace – and an overall strategy includes everybody.

"It is not a joint strategy as some people have tried to make out... what I want is a complete and utter cessation of violence on all sides... Gerry Adams is very serious, and the people he represents are very serious about these talks and their objectives".

So Mr Hume says: "I have never felt more hopeful in 20 years than I do now."

There are other grounds for believing that some change might be in the wind.

While the IRA's bombing campaign and the Loyalists' killings of Catholics show no sign of letting up, the language of Sinn Fein has taken on a decidedly more moderate and conciliatory tone over the past year. Sinn Fein spokespersons now talk of "inclusive dialogue" and "recognition of the Unionist identity". They even say that a united Ireland – their preferred option – might not necessarily be the end result of a negotiating process.

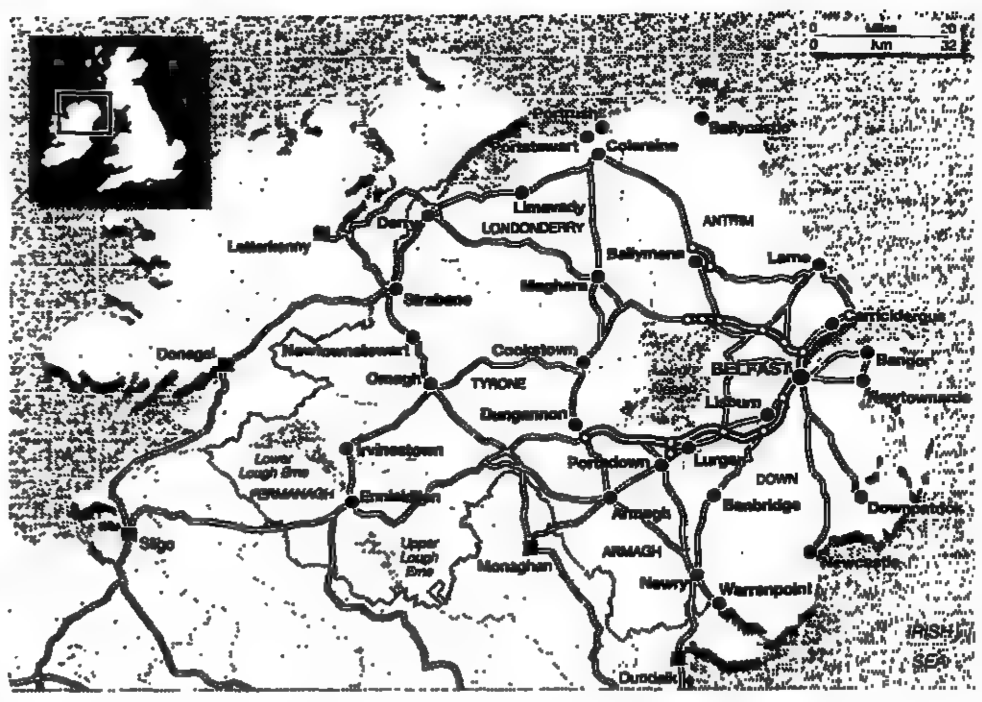
Presbyterian ministers have been holding secret talks with paramilitary leaders on both sides over the past year, while the outlawed Loyalist Ulster Defence Association (UDA) recently announced that it is prepared to meet and talk to Archbishop Cathal Daly, the Catholic primate.

The Opsahl Commission, an independent body set up in 1992 to sound out a broad range of public opinion from across the province, concluded earlier this year that there is a strong desire for political compromise to end the violence – a message from the constituencies which, apparently, many of the province's politicians have still not heard.

Intriguing reports have also appeared, over the summer, of secret negotiations between the army and the IRA on a 60-point military de-escalation plan. These have been strenuously denied by both the Northern Ireland Office and Sinn Fein, but they add to a more general impression that although the mainstream political process has ended up in limbo, nonetheless intensive efforts are being made behind the scenes to broker a peace.

The key to whether Mr Hume can now succeed in his more public efforts to achieve a cessation of hostilities, as a means of getting everybody around the negotiating table, will be whether the British government's stated position that it has no strategic interest in Northern Ireland, that it is neutral in the conflict, and has no preferred option for a settlement, will stand up under the strains of Westminster politics.

Just before the summer recess at Westminster, the Ulster Unionist Party (UUP) led by Mr James Molyneaux, voted with Mr John Major and his Conservative party on a finely-balanced Maastricht vote. Mr Molyneaux announced that the UUP would be giving its support to the Conservatives for the remaining life of the present parliament, but simultaneously



denied that any deal had been struck with the Tories.

But there now exist high expectations among Unionist politicians in the province that long sought after changes in the administration of Northern Ireland will take place over the next two years.

These include the establishment of a parliamentary select committee on Northern Ireland, and for more powers to be handed over to local councils from the Northern Ireland Office (NIO). One UUP councillor in Londonderry says: "We have discussed and been lobbying for this at Westminster for some time."

If such changes were to be implemented unilaterally, the Irish government has already indicated that it would consider this tantamount to a violation of the 1985 Anglo-Irish Treaty.

Mr Hume says: "Any secret agreement between the British government and one party in Northern Ireland would have no chance of succeeding, particularly if it is related to restoring power to local authorities before it has been clearly established that any such power would be exercised fairly... To play party politics of that nature with Northern Ireland in order to stay in power is utterly irresponsible. Everybody will end up paying a price for it including the government that enters into such an agreement."

Abandonment of the talks process, and the adoption of a more unilateralist approach by the UK government, would deal a severe blow to Anglo-Irish relations.

Ministers from the two governments meet this week in London to review whether there is any life remaining in the talks process, and indeed whether they can still claim to share a bipartisan approach.

The Republic has indicated it might now take a different tack and seek the appointment of a US special envoy to the province. It is thought that such an envoy would not be as constrained about talking to Sinn Fein as would the Irish and British governments.

So while fresh approaches may be imminent on the political front, there is also optimism emerging on the economic one. The clouds of recession have already broken up over Northern Ireland and business confidence is now the strongest in years. Unemployment is beginning to fall and retail sales are growing.

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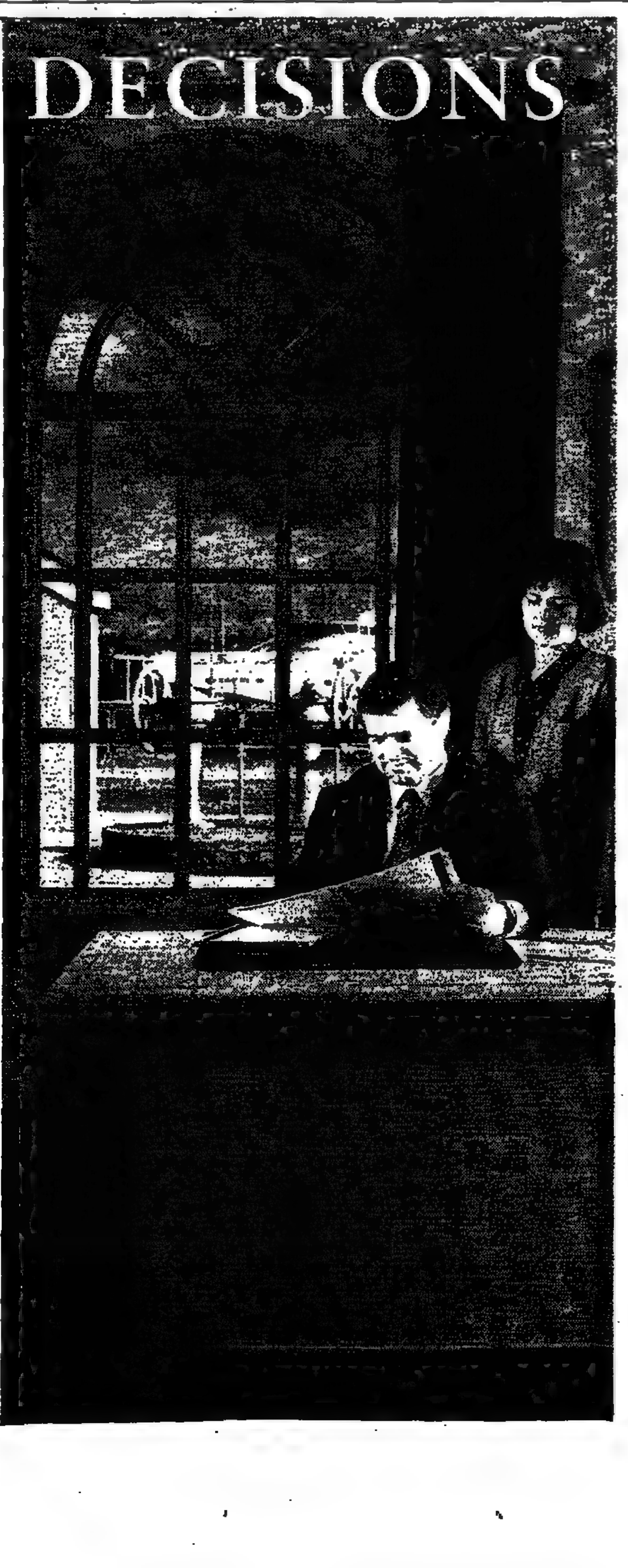


Robert Rodwell examines the economy and explains why recession was less severe than on the mainland

Political stalemate remains a constraint

Among Ulster's business community there is general agreement with a view expressed in a recent NI Economic Research Centre report that the province has had a "good" recession.

Ulster's GDP scarcely blipped: in mainland Great Britain it fell by 3.9 per cent between 1990 and 1992. The number in work in Northern Ireland fell by very little and has remained close to its historically high peak of 1990. Such rise in unemployment as there was can generally be attributed to the arrival of newcomers on the job market.

Such are the demographic realities that Northern Ireland has to run fast in its job creation even to stand still in terms of its unemployment rate.

From Belfast, observers have been able to take a fairly relaxed view of the tribulations of the British economy since 1989. Although measured from a lower datum line, Ulster's dive was less steep. The big rise in unemployment nationally, particularly in southern England, was no more than what Northern Ireland had gone through in the early 1980s with the disappearance of much of its manufacturing base.

Two factors in particular *explain the gentleness of* Ulster's dive.

One is its heavy dependence for employment on the relatively recession-proof public sector. *It accounts for some 40* per cent of employment, according to Doctor Vani Barooah, professor of applied economics at the University of Ulster. "The spending of that 40 per cent means that about 70 per cent of jobs are ultimately dependent upon the public sector."

Equally important is the absence of the speculative property boom which occurred

If you have a job at all in Northern Ireland you are unlikely to be crippled by a mortgage you can no longer afford

in Great Britain during the late 1980s. It simply did not happen in Northern Ireland. House prices rose steadily, but there was none of the dramatic surge which led so many people into high mortgages and, with market slump, into the negative equity trap. There have been no significant repossessions: if you have a job at all in Northern Ireland you are unlikely to be crippled by a mortgage you can no longer afford.

Disposable incomes have not, therefore, been under such heavy pressure; the Northern Ireland public has continued to spend to an extent which causes many first-time visitors *to express surprise at apparent* prosperity where the image had been one of deprivation.

But confidence has been bruised by the national gloom. It is rated low-to-medium rather than medium-to-high by Paddy Murphy, chief executive of the Bank of Ireland in Northern Ireland: "We are seeing a very slow pick-up – slower than we would have expected."

While the Bank of Ireland reports a 60 per cent increase in mortgage business this year over last, some of this is accounted for by considerable growth in its market share. But credit demand among companies is also markedly up.

Mr Murphy says: "There have been a lot of approvals recently, but borrowers are slow to draw the money. They're getting ready for expansion, but the trigger to make them go is still not there."

That cannot be said for Ulster's largest family firm, Desmond and Sons, garment manufacturer, which recently announced a £34m expansion which will add 600 jobs and a new plant to the 2,700 workers in 11 locations already. The announcement gave particular satisfaction to economic planners in Belfast because this investment is in the province's poorest region, west of the river Bann. Moreover, it is *being made by an indigenous,* locally-owned company rather than some remote multi-national with no deep commitment to the province.

"A number of people we're working with are looking at *projects, at acquisitions. They* haven't all acquired them, but six months ago they weren't even looking. There is a reawakened interest in new activity," says Mr Tony Hopkins, managing partner in Northern Ireland of Touche Ross, accountants.

For 20 years, successive governments have shaped policies to local need, not the national dogma of the day

Mr Hopkins brings a particular perspective to a region where, he says, the close intermeshing of public and private sector decision makers is unique in the UK. For 10 years until June last year, he was on the staff of the Northern Ireland Industrial Development Board – the last four years as its chief executive. He pays tribute to the way in which *successive governments have* shaped policies, for 20 years, to the local need rather than the national dogma of the day.

Mr Hopkins claims that Northern Ireland managers are now considerably more professional and competent than a decade or so ago: "The message of competitiveness is now well embedded. They have got out into the export markets and *overcome the diffidence factor.* The business basics are now right, and there is a great bank of talent coming out of the schools and universities. The province is well poised – and the last year has been good for *inward investments."*

No local observer would argue with Professor Barooah's contention that closing the big employment gap between Northern Ireland and mainland Britain will require radical *restructuring and regeneration* of the province's manufacturing base. "As an engine for employment generation, the public sector has run out of steam. The only sector which isn't reliant on public largesse *has to be manufacturing* and that is the sector which has run down most in the past 40 years."

The years are long gone when Belfast alone was a world centre in several industries now much diminished: shipbuilding; linen; ropes; textile machinery and tobacco.

There must be closer links between finance and industry and a pro-active policy to back winners – on the lines of East Asian "tigers" (Japan, Korea and Taiwan) – says Professor Barooah.

He and others look enviously at the Irish Republic's success in attracting the so-called "sunrise" industries despite an industrial infrastructure much less advanced than that in Ulster. It is a reminder of what might have been achieved were it not for the effects of more than 20 years of political instability and terrorism.

Business interests are themselves trying to produce some easing in the political stalemate on which terrorism thrives. The Northern Ireland Chamber of Commerce and Industry has for some months been holding unpublicised working breakfasts with the various party leaders; sell-out occasions at which the politicians have been implored by the assembled membership to work together for the province's economic good.

"First results have been encouraging but we have a long way to go. There is an amazing amount of agreement between them on economic issues and how to achieve our aims," says Paddy Murphy, in his other role as the chamber's vice-president.

"So far we've only hosted them apart. The next step will be to get them together."

KEY FACTS

	Northern Ireland	UK
Area (sq km)	13,483	242,520
Population (000's)	1,594	57,649
Age structure (% of total pop.)		
Below 16 years	25.8	20.3
Above pension age	15.0	18.3
Births per 1,000 of the population	16.5	13.8
Births outside marriage (% of total)	20.2	29.8
Economy		
GDP (£ bn)	10.5	497
GDP per head (£)	6,567	8,516
Disposable income per head (£)	6,112	7,071
Consumers exp. per head (£)	5,349	6,381
Total consumers exp.(£ bn)	8.5	367.8
Total investment (£m)	1,289	53,938
Average house price (£, Q2 1993)	40,777	65,025
Male unemployment rate (%)[1]	18.0	13.8
Female unemployment rate (%)[1]	7.6	5.4
Unemployment rate (%)[1]	13.7	10.2
Companies registered		
Stock at end 1991 (000's)	53.2	1,716.3
Net gain 1984-91 (000's)	6.3	324
Manufacturing investment (£m)[2]	364	14,328
Investment in dwellings (£m)[2]	531	18,906
Total investment (£m)[2]	1,289	53,938
Education. % of school leavers with:		
more than 3 'A' Level passes		
Males	18.6	15.6
Females	22.8	18.1
no graded results		
Males	16.1	9.2
Females	9.8	6.5
Health		
Health expenditure per head (£)	432.6	353.4
Health Service staff per 10,000 pop	242.7	165.4
Waiting Lists [3]	22.2	8.8[4]

All figures 1991 unless stated.
(1) Unemployment in June 1993. Not seasonally adjusted.
(2) 1990. (3) Persons waiting over a year as % of total.
(3) Waiting lists for England only.
Source: Regional Trends 28, 1993. Employment Gazette, Halifax Building Society.

Agriculture enjoys a clean and green image second to none, writes **Michael Drake**

Expertise on call around the world

THE face of agriculture, Northern Ireland's largest industry, is changing. Gone are the times when a trip to market was little more than an outing to a provincial town 20 miles away. Today the world is smaller: produce from the province's farms and factories is sold in far flung places.

And greater interest is being taken in what the industry has to offer, not only in the way of foodstuffs, but also in livestock on the land. For example, buyers from as far away as Korea have made no fewer than four visits to Northern Ireland in search of pedigree pig breeding lines. On their most recent trip, last month, they picked up 130 high quality boars, bringing the number of animals they have bought in the province to a total of 500.

It was an outbreak of Blue Ear disease among the mainland pig population in Britain that first focused Korean attention on Northern Ireland pig farms. Like many visitors before them, the Koreans have discovered that Northern Ireland has an enviable animal health record.

Because it is part of a small island, Northern Ireland's "clean and green" image is second to none. This has been reinforced over the past couple of years, since the introduction, by the Northern Ireland Livestock Marketing Commission, of a Farm Quality Assured Scheme for beef and lamb. To date the scheme has attracted some 3,251 farmers who between them account for 69 per cent of the annual beef slaughterings in Northern Ireland.

Beef from the province is now marketed in Holland under the Greenfields label, through the Albert Heijn supermarket chain which dictates that supplies are from Quality Assured farms.

A party of six Northern Ireland representatives of meat companies, on a mission to find niche markets, flew to Brussels two months ago, taking with them local beef and lamb for a special dinner. As a result of their trip they have identified significant sales outlets for both products; they intend to increase sales orders to Belgium.

With the prospect of a steep decline in the level of EC Intervention buying, an increase in marketing missions from Northern Ireland is to be expected. Three years ago, some 40 per cent of all slaughterings in Northern Ireland were sold into Intervention, and the fact that this facility could drop to about 10 per cent in two to three years is a sobering thought for those who market meat.

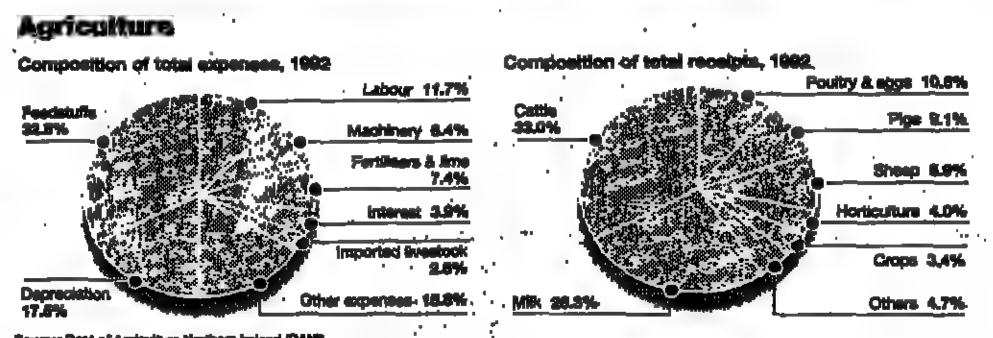
On a more cheerful note, Northern Ireland farmers have been offered an opportunity to supply two important continental supermarket groups with bull beef. Mr Brendan McGahan, chief executive of the Livestock Marketing Commission, says: "The Edah group, which specifies young bulls, is presently being supplied by Dutch and French farmers. It sees supplies from its own country becoming scarcer as stocking rates, fertiliser use restrictions and quota considerations begin to reduce stock numbers on their supply farms."

For years, dairy farmers throughout Great Britain and Northern Ireland have used their own milk marketing boards. Now that is coming to an end. Something of a "milk war" has developed in the province between Nestle, the international giant, which has a factory at Omagh in Co Tyrone; Strathroy Milk Marketing, which is based nearby; Pritchitt Foods of Newtownards; Dale Farm, which is part of the Northern Foods operation; and Leckpatrick Dairies, which is now owned by Cork-based Golden Vale.

All have one thing in common: they want to link up with the province's dairy *farmers – there are more than* 6,000 – in direct purchase contracts.

As it dies, the Milk Marketing Board (MMB) is asking producers to help form a voluntary co-operative – but the future of Dromona Quality Foods, the MMB's marketing arm, is a bone of contention. The MMB wants to retain it, under the umbrella of the new co-operative; the Northern Ireland Dairy Trades Federation and several processors want a divorce between the MMB and Dromona. The Office of Fair Trading's opinion is that "the continued retention of Dromona Quality Foods within the new co-operative would be unwelcome in competition".

Ulster farmers have an opportunity to supply two important continental supermarket groups with bull beef



Source: Dept of Agriculture Northern Ireland (DANI)

Dairy farmers can speak no ill of Dromona Quality Foods – its profitability brought them a handout of £1.8m in July this year. Furthermore, Dromona has just announced a 26 per cent increase in its annual profit, to £3.4m, having enjoyed its best-ever trading performance – its turnover increased by £10m to £78m despite the MMB paying 16 per cent more for milk supplies. Mr Jim Noble, Dromona's managing director, says: "The past year was one of challenge and opportunity in the dairy market both at home and internationally."

At 2.6m, there are about a million more sheep than people in Ulster

Expanded sales to Great *Britain and Europe, coupled* with aggressive marketing on the international scene through Halib Foods International, has contributed to the success. Halib, the wholly-owned, exporting subsidiary of Dromona Quality Foods, has just clinched orders worth £1.6m to supply milk powder to three important new overseas outlets in, respectively, El Salvador, Bangladesh and a Central African state. It is hoped that this could develop into long term business worth £6.5m a year.

Looking at Northern Ireland's farms during the past year, the most recent government statistics show gross output rising by 9 per cent to £935m in 1992, while expenditure rose by 3 per cent to £513m. Total income from farming in the province – a land area about the size of Yorkshire – rose by 24 per cent to £224m. The Department of Agriculture says that in real terms, after allowing for inflation, this represents a rise of 20 per cent to a level well above the 1980s average.

Provisional estimates of gross annual capital investment in agriculture indicate little change from the relatively low level of investment in 1991. At £103m, total investment was less than 1 per cent above the level of the previous year. While investment in plant, machinery and vehicles fell by 7 per cent to £45m, investment in buildings and works rose by 7 per cent to £58m, almost all the increase taking place under the Agricultural Development Operational Programme.

The beef breeding herd increased by 4 per cent, to 264,000 cows, during the past year; but numbers of dairy cows fell by 2 per cent, to 269,000. A slower rate of expansion in the sheep flock continued in 1992, with a 2 per cent increase in both the breeding flock and total sheep numbers. (But at 2.6m there are still more sheep than people in Northern Ireland.)

Cattle account for 33 per cent, sheep for 8.9 per cent of Northern Ireland's total *receipts. The dairy sector* at 26.3 per cent, the poultry and eggs sector at 10.6 per cent and the efforts of pigs producers, with 9.1 per cent, make up much of the remainder. Horticulture, at 4 per cent, contributes more than crops, which produce only 3.4 per cent of farming receipts; other small items make up 4.7 per cent.

Ulster farmers will say that things on the land are just as difficult as they ever were ... but they will continue to make a living from it. In *the wider context,* Northern Ireland expertise in food and farming is widely used around the world, especially in the Middle East, where the Masstock Organisation has been "greening the desert" for more than a decade.

Now the spotlight falls on Russia. Researchers from the faculty of agriculture and food science at Queen's University, Belfast, are spearheading an EC-funded project aimed at improving the efficiency of the supply of fresh produce and dairy products in Russia. The Queen's team is part of a consortium which has won funding of £650,000 under the Community's Tacis programme – Technical Assistance to the Commonwealth of Independent States and Georgia – to lead an investigation co-ordinated by Northern Ireland Public Sector Enterprises Ltd.

The consortium will carry out a study of the milk, fruit and vegetable sectors and establish a *food control* programme in the Serpukhov district and Pushchino municipality, part of the Moscow region, about 100 kilometres south of the capital. The project is seeking to help with the privatisation of *Russian farms* and food distribution organisations.

Signs of change in the wind

Continued from previous page

All these act as spurs to new investment such as that in Londonderry, where £65m is being spent on a new shopping *and office complex in the city* which will serve an economic hinterland on both sides of the border.

Several important new foreign and local investments have been announced in the past year, and continuing infrastructural improvements in the roads, ports and airports are making the province an increasingly attractive location for both business and tourism. Last year a record number of 1.25m visitors came to Northern Ireland, and a further 20 per cent increase is forecast for this year.

Meanwhile, Northern Irish farmers are enjoying rising incomes, despite reforms to the common agricultural policy. *The food processing industry* appears to be adapting well to the cutbacks in intervention buying; instead, it is successfully exploring new markets within Europe. The continuing importance of agriculture to the economy can be appreciated from the fact that about 50 per cent of exports through the busy ro-ro (roll on, roll off) port of Larne are of agricultural produce.

Economic analysts believe that any sustained recovery must await recovery elsewhere in the UK and Europe, and that the severe problem of long-term *structural unemployment* in the province has still to be adequately addressed. A regeneration of manufacturing industry is considered particularly important, to balance the declines in traditional industries such as shipbuilding, heavy engineering and textiles.

The government insists that it is doing all it can; indeed, its *£3bn annual subsidy* to Northern Ireland has resulted in a housing and communications infrastructure that is now superior – or at least comparable – to many other parts of the UK. Ministers argue that it is the IRA *bombing* campaign and the political violence which are holding back economic growth and the necessary *private inward* investment.

Evidence for that can be found in the city of Londonderry – once the symbol of the "troubles". Here, local businessmen are brimming with confidence, "power-sharing" on the local council has got the politicians working together for the city, and IRA *bombs* have not been heard for years.

That is the picture of Northern Ireland which Mr *Hume* would like to see replicated in the rest of the province. If, indeed, his talks with Mr Adams are progressing as satisfactorily as he claims, then it need not be so far-fetched to imagine a very different outlook facing Northern Ireland in another year's time.

Tourist industry now offers too many attractions for too few tourists, writes **Robert Rodwell**

Chilling commercials do not help

On September 22 a small, narrow-gauge steam train will make its last journey around Lord O'Neill's Shane's Castle estate on the shores of Lough Neagh in County Antrim.

Lord O'Neill, who installed the railway in 1971, says that with only 30,000 passengers each year, it did not pay its way. Northern Ireland now offers too many attractions for too few tourists. "Unless peace breaks out, some of them won't be sustainable. We need to watch the total number and we have to go for quality, not quantity."

He is himself a former chairman of the Northern Ireland Tourist Board (NITB). His remarks strike a chord in the industry. Promotors and proprietors bemoan Ulster's wettest, most sunless summer since reliable records began. Thousands of what would have been the industry's home-trade visitors scrambled for last-minute bookings to seek sunshine elsewhere.

Has the province, in a frenetic burst of development activity enthusiastically supported by the NITB and funded with big subventions from both the EC and the International Fund for Ireland, over-catered for the level of tourism it can reasonably expect while its external image remains so poor?

Presenting his 1992 annual report, Mr Hugh O'Neill, the present NITB chairman, unabashedly announced that the board was currently involved in the development of some 350 projects. The NITB has just published a brochure on no fewer than 34 developments either just opened or to open by the end of this month.

They include multi-million pound "star attractions" such as the £4.5m interpretative centre at Navan Fort outside Armagh – the *Emain Macha* of Gaelic legend, seat of the ancient kings of Ulster. Then there is the Tower museum in Londonderry, which capitalises on the rich history of western Europe's last fortress city with ancient walls intact. A big "discovery centre" on Lough Neagh will be a success if it does not drive the ambient bird life away.

Carrickfergus, on the Antrim coast, hid its magnificent Norman castle behind a screen of enormous oil tanks and paid scant regard to its archaeological heritage – until recently. In July this year the innovative £2.5m "Knightride" monorail opened, carrying visitors through tableaux of Carrickfergus's history from 531 AD almost to the present day.

The conventional seaside resort of Bangor, in County Down, has new wet weather entertainments

Northern Ireland's 26 district councils, deprived of most of the powers enjoyed by their mainland counterparts, have clamoured for grants to exercise their muscle in one of the very few sectors where their writ can run. The upshot is that while the province is not exactly rich in "heritage and interpretive" centres, provision is unbalanced and some long-standing Ulster assets are ignored. (It remains very difficult, for example, to find a public slipway giving a boat owner easy access to the tidal waters of the 18-mile long Strangford Lough.)

With an 80 per cent increase in inquiries this year compared with 1992, the NITB is forecasting an all-time high of 1.5m visitors against last year's total of 1.255m – which itself was a 6 per cent increase on 1991. These figures include business visitors and what the trade calls VFR (visiting friends and relatives) traffic, with the number of purely discretionary "real" holidaymakers in the minority. In this category, visitors from both Britain and the Republic declined by 7 and 17 per cent respectively last year.

Ulster's tourist trade pales into insignificance beside that of competing regions. Its estimated tourism earnings of £162m last year accounted for just 2 per cent of Ulster's gdp. Scotland's accounted for 9 per cent of regional gdp against an estimated overall figure of 5 per cent for Great Britain. The Republic's tourist industry contributed 7 per cent to the Irish gdp.

If its image were not such a depressant, on a *pro rata* basis Northern Ireland could reasonably expect more than 5m visitors a year. If there is little recovery in the numbers of visitors originating from or passing through the Republic of Ireland this year, the Northern Ireland Office should take some of the blame. In an astonishing display of what some tourist interests call witlessness, the Northern Ireland Office began running a series of chilling commercials on Ulster Television, featuring make-believe terrorist murders (ironically, filmed in Scotland), in the hope of persuading more Ulster people to become police informers by means of the confidential recording telephones. "Don't suffer it. Change it", ran the punchline.

Transmission began just as the NITB launched its most ambitious high-season TV advertising campaign yet: two handsome commercials transmitted throughout the Republic of Ireland and Scotland. But the terrorism commercials – designed purely for Northern Ireland consumption – would have been received and viewed by millions in the larger, more populous part of the Republic. The deterrent effect on intending visitors can only be imagined.

It may not have been quite as bad, however, as the effect of this year's appalling summer. "Trade from the Republic is particularly susceptible to the weather. We have reports of people booking and not showing up, or leaving early because of constant rain," says Hugh O'Neill.

As Mr Geoff Hill, travel editor of the Newsletter, a Northern Ireland morning paper, wrote recently: "Booking an Ulster summer holiday has always been like looking for a job in the tourist board. 'Wimps' need not apply."

Tim Coone finds optimism in Ulster's second city

Facelift transforms Derry's ancient walls

SITUATED close to Northern Ireland's border with the Irish Republic, Derry has historically been associated with the "troubles".

But a new mood of optimism has swept the city in recent years, as politicians, businessmen and community leaders have succeeded in putting their religious differences aside to rebuild what is now evolving into a new provincial capital serving communities on both sides of the border.

A new, privately-financed £60m shopping and office complex is emerging from the city's old dockside. Downstream, along the river Foyle, contractors are putting the finishing touches to the city's new port.

Tourists are finding attractions in new museums, a craft village and the facelift carried out on Derry's city's 17th century city walls, while locals take encouragement from a new factory that is being built by Seagate, the US computer disk drive manufacturer, which is investing £45m in a new wafer fabrication plant in the city to supply the European market. The Seagate plant will provide some 500 urgently-needed jobs for the 8,500 currently in Derry's dole queues.

It is a far cry from the darkest inward-looking days of the early 1970s, when the civil rights movement was bludgeoned from the streets, Bloody Sunday turned the Catholic community against the British army, and an IRA bombing campaign laid waste to the city centre.

Northern Ireland's second city – Londonderry on the maps, but known as Derry to most of its locals – has undergone a transformation as a result of a concerted effort by the Northern Ireland Office to improve the city's roads and infrastructure and to improve housing standards, and by the initiative of locals such as Mr Paddy Doherty, the chairman of the Inner City Trust, who has been a key figure behind the renovation of the city centre.

Equally important have been the efforts of Mr John Hume of the SDLP, the local MP, who has rallied the local business community – Protestant and Catholic – to go on trade delegations together to woo US investors and bargain in Brussels for a share of EC structural funds.

Mr Michael Black, the president of the Derry Chamber of Commerce, says: "The city is on the up. There is tremendous confidence and optimism in the business community here. People have stopped griping and are going out to find business... Everybody is now working in the same direction".

The city itself has a population of just 80,000, but its potential economic catchment area embraces the population of the county of Donegal in the Republic, and even parts of Sligo. This adds a further 150,000 people and makes retail developments a particularly attractive proposition, particularly since the removal of customs posts at the border since the beginning of the year, under the new EC Single Market regime. Marks and Spencer is to be the anchor tenant in the new Foyleside shopping complex, once it is completed in early 1995.

'We look at ourselves as North West plc with a development strategy'

Mr Damian McAteer, an executive at the EC-funded Business Innovation Centre in the city, says: "Retail-led development has to be welcomed for the jobs and dynamism it creates, but we have to diversify into manufacturing to create the wages that will sustain the retail sector. We have to look at ourselves as North West plc, with a coherent development strategy for the region."

Mr Paddy Doherty of the Inner City Trust sees the new developments leading to that goal. "I don't think manufacturers are going to come into a rundown place. It's got to have vitality. Our hope is that on the coat-tails of the inner city regeneration and the commercial developments, we will attract industry here."

One significant development stimulating the existing local industry has been a cross-border project linking the Derry and Letterkenny chambers of commerce. Mr Don McSwiney, the project's chief executive, says:

"The people of Donegal look to Derry as their regional centre. The business community is therefore beginning to structure itself on a regional basis. We are bringing sectoral groups together from both sides of the border to encourage them to work together in purchasing and marketing, to learn from each other's experiences and to stop being inward-looking and to look to Europe as a market."

Working groups are already established in the clothing, textiles, food, drink, information technology, telecommunications, crafts and legal services sectors. Other initiatives are linking up local businessmen with the US market.

Mr Ian Young, a board member of North West International (formerly Boston-Derry Ventures) is a Protestant, owner of a local electrical engineering firm. He said that the business community in Derry have found they can do business better by putting aside their political and confessional differences, and as a result have received good responses in the US and in Brussels to their trade missions and lobbying.

Mr Black, who is also on the board, said "We are selling the city as a place for US investment".

The results are beginning to show. Dupont has been in the city for the past 30 years, but Fruit of the Loom, the US clothing manufacturer, is completing a yarn spinning plant in Derry to supply its garments plant across the border at Buncrana, while Seagate began work on its new facility just six months ago. Earlier this year Mr Michael Roarty, the president of the US-Ireland chamber of commerce and vice-president of Anheuser Busch (brewer of Budweiser lager) said the new investments were "a powerful indicator of the very bright horizons that lie ahead for the city".

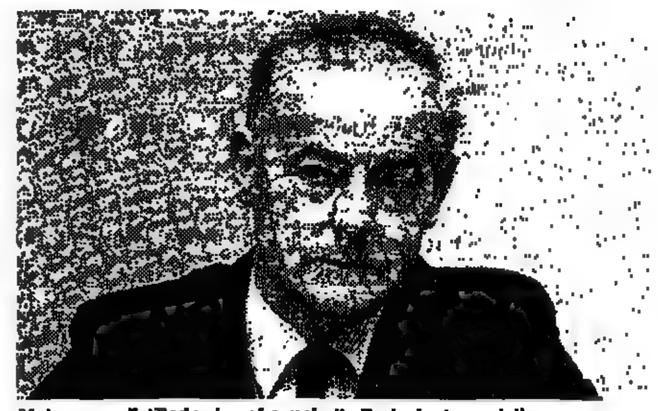
Bringing those horizons even closer are the £32m investment in the new port for Derry, which will handle ships up to 30,000dwt and which has been located alongside a zone earmarked for industrial expansion; and the £9m recently spent in upgrading the nearby Eglinton airport to accommodate aircraft up to Boeing 737 size. New passenger services to Dublin and London are expected to be opened in 1994.

Twenty years ago, it was Derry's historical and geographical problem to have had the Irish border drawn so near to its city limits. Imagination, foresight and political courage have since turned that problem to the city's advantage. For many people in the north-west corner of the island, the border is no longer the barrier it once was.

Profile: **James Molyneaux**

Back seat figurehead

AS leader of Northern Ireland's largest political party, the Ulster Unionists (UUP), Mr James Molyneaux is the figurehead of traditional, mainstream Unionist politics and values in the province.



Molyneaux: distilled voice of a majority Protestant population

His is the distilled voice of a majority Protestant population which, down the years, has had to face the gradual erosion of its privileged status in holding the reins of Ulster's political and economic power.

The provincial government at Stormont was dissolved in 1972, replaced by direct rule from Westminster. And then in 1985, for the first time, the Anglo-Irish agreement gave the Irish Republic a consultative role in any future constitutional arrangements for the province.

Reaction to those changes has pushed Unionism in a number of different directions. Devolutionists, integrationists, power-sharers and even pro-"independentists" have all sought to push the UUP into their chosen path.

It is Mr Molyneaux's claim to achievement that he has held the party together through these internal struggles – despite the radical shift of one trend of Unionism into the hard-line DUP, another trend into paramilitary activities, and the loss of voters to the confessionally-neutral Alliance party and, more recently, the Conservatives.

Elected to Westminster for the South Antrim constituency in 1970, where he had been constituency secretary to his predecessor, Mr Molyneaux assumed leadership of the parliamentary party in 1974, and went on to be elected party leader in 1979. He is a leading exponent of the "integrationist" line of Unionist politics: his principal political goal is to improve and democratise direct rule from Westminster – the political arena in which he feels most at ease – rather than argue the case for devolution.

Arthur Aughey, an academic and writer on Unionist politics, says: "Molyneaux has always been a Westminster man and is well respected for his honesty and integrity and his competence at the parliamentary game. His way of defending the Union was the undemonstrative, the quiet and patient cultivation of sympathy behind the scenes".

But Mr Molyneaux's faith in his ability to sway Westminster politicians came unstuck in 1985 when Mrs Margaret Thatcher, the former British prime minister, signed the Anglo-Irish agreement with the Republic.

More recently, his party's support for John Major's government at Westminster during two crucial and closely-contested votes, on pit closures and on the Maastricht Treaty, brought accusations of a behind-the-scenes deal – but to date it has brought no tangible benefits for the UUP. Government ministers have insisted that no concessions have been offered or will be made in exchange for the UUP support.

A shy, almost reclusive figure, Mr Molyneaux frequently avoids the spotlight, leaving public statements on party policy to his deputy leader, Mr Ken Maginnis. During the series of "round-table" inter-party talks on Northern Ireland during 1991 and 1992, which broke up without agreement, participants say he often took a back seat, sitting silently and leaving much of the negotiation and argument to Mr Maginnis.

When one round of the talks took the historic step of moving to Dublin in 1992, Mr Molyneaux was notable for his absence from the UUP delegation.

Now 73 years of age, he has been criticised for failing to move the narrowly-focused mainstream of Unionist politics into the era of European union. He has also been accused of failure to seize opportunities and initiatives to achieve a breakthrough in the political log-jam that has characterised Northern Ireland for the past two decades.

Such a breakthrough could only happen with the initiative and support of the UUP, the majority party. But Mr Molyneaux seems content to leave that crowning achievement out of his political memoirs.

Tim Coone

Hume: 'the problem is about people, not territory'

Profile: **John Hume**

Convinced that the border will be irrelevant

THERE is an infectious optimism about Mr John Hume, the leader and founding member of the Social Democratic Labour Party (SDLP), that sheds a few rays of light on to the otherwise impenetrable gloom that has come to characterise Northern Ireland politics.

He is convinced that nationalism, be it catholic- or protestant-orientated, will gradually dissipate in the new European union that is being forged in Brussels. This conviction is the driving force behind his vision for new political structures in Northern Ireland which, he believes, will eventually transcend the border on the island of Ireland and make it irrelevant.

Mr Hume says: "What we are facing is an absolute reality that the world is a smaller place, in terms of technology, transport and communications. It is natural that that change should be reflected in political institutions. Once upon a time we had city-states. Then we moved to nation-states and now we are moving to a continental one. It is a natural evolution. We are living in a post-nationalist world".

Not a man to be baulked by criticism of his ideas or his tactics

Is he not discouraged by the recent chaos in the ERM and the setbacks to monetary union? "It simply reinforces my view that the logic of a single market is a single currency" he replies.

John Hume cut his political teeth in the civil rights movement in Londonderry in the late 1960s, when he sat in front of British armoured cars and mediated between crowds of rock-throwing youths and army officers, was drenched by water cannons and arrested for his efforts. He went on to become a founding member of the SDLP in 1970 – "to re-define nationalism," in his own words.

"The problem is about people, not territory – it is the people that are divided, not the territory. We have to find the mechanisms for uniting people. Only when people start working together, spilling sweat and not blood, will the old prejudices disappear. There is no other way of solving the problem".

One of his abiding memories is as a 10-year-old watching an Orange Order march in Derry, when his father, unemployed at the time, placed a hand on his shoulder and said: "Just remember, John, you can't eat flags."

John Hume says he was strongly influenced by the non-violent preachings for change advocated by Martin Luther King in the US, and by the whole process of the creation of the European Community.

He has been in talks with Mr Gerry Adams, the leader of Sinn Fein, since last April, with a view to bringing about a permanent ceasefire between the IRA and the Loyalist paramilitaries in the province.

Mr Hume is not one to be baulked by criticism of his ideas or his tactics. "I am criticised for my approaches, but nobody else is putting any new proposals on the table. I want to see an agreed Ireland, not a united Ireland. I want a new Ireland in a new Europe. I am more confident now about the future than I have been for the past 20 years. In 10 to 20 years more there will be a whole new ball game."

Tim Coone

Stephen Wisenthal looks at the revolutionary scientific and industrial possibilities of micromachining

Small wonders, big realities

Imagine a lightbulb that is thinner than a human hair or a weighing scale so sensitive it can weigh a single cell. Thanks to a marriage of scientific ingenuity with techniques developed for the microchip industry, these and other small wonders are becoming reality.

Micromachining, an industry which only started 10 years ago, is growing quickly. The tiny devices – often smaller than the dot on an "i" – can be used in all sorts of applications.

The idea of micromachines conjures up images of minute motors and pumps, but practical versions are years from reality. Many of the applications are medical, such as blood pressure monitors which fit on the end of catheters, or tiny scissors for microsurgery.

Researchers predict that an implantable device which senses blood sugar levels and dispenses insulin will soon be developed for the treatment of diabetes.

Despite their intricacy, micromachines can be produced at low cost in large numbers. This is because much of the expense is taken up with design. So the more that are manufactured, the cheaper they are.

The fabricating techniques developed for the microelectronics industry have given the makers of micromachines a head start. "If the integrated circuit industry wasn't there, there is a whole lot of equipment that would have had to be designed that would have cost millions," says Gordon Guild, president of the Micromachining Technology Centre, set up to develop and market devices pioneered at Simon Fraser University's Institute for Micromachining and Microfabrication Research in Vancouver, Canada.

The two-micron (millionth of a metre) technology formerly used to manufacture microchips is more than adequate for micromachining. (The latest microprocessor chips use resolutions of less than one micron.) Thus research facilities have picked up very workable equipment cheaply.

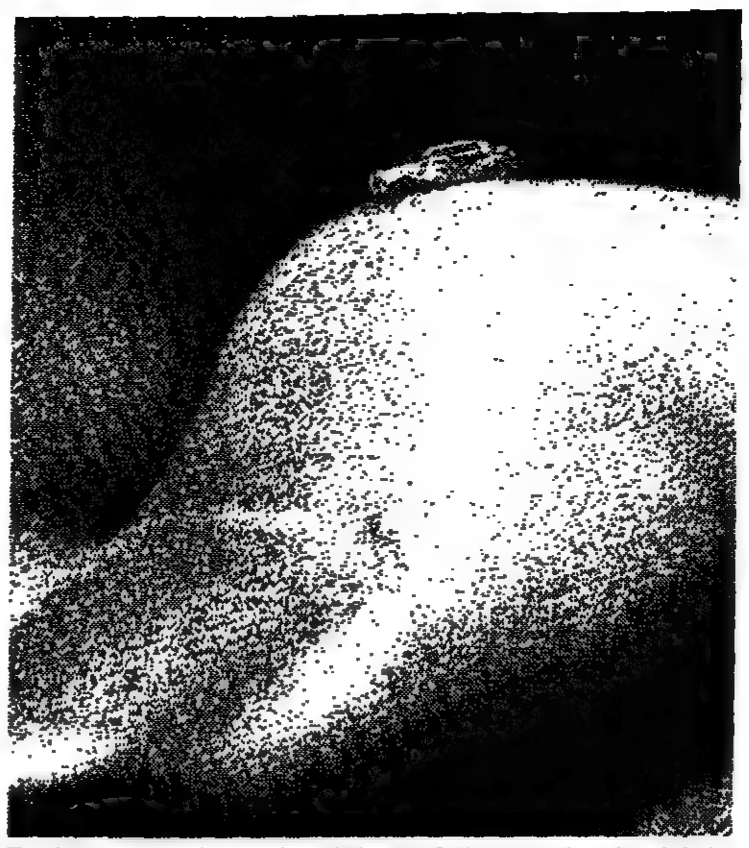
To date, the commercial applications of micromachining, including pressure sensors and other comparatively simple measuring devices, have been more prosaic than the visions of some researchers.

Many potential applications are not "machines" at all but small-scale structures such as membranes, valves or micro-lenses made with micromachining techniques.

By far the largest existing market for micromachines is the automotive industry. This includes a wide range of functions from the accelerometers which trigger airbags to the pressure sensors in emission control systems. Micromachining is seen as a critical future technology for vehicle makers, says Jay Jackson, a vice-president at Ford Microelectronics.

Ford has demonstrated its commitment by moving a large number of engineers to Colorado Springs, where it has set up a micromachining centre. The fuel injector nozzles Ford recently started manufacturing there illustrate some of the advantages of micromachining.

Nozzles made by other manufacturers use an electronic discharge technique to drill small holes in stainless steel. The holes Ford is producing in silicon with micromachining techniques are very uniform, which means the company's fuel injectors are more precise, says Jackson.



Thumbs up: the tiny micromachining devices are finding homes throughout industry

The automotive industry will continue to use increasing numbers of microsensors for engine control, transmission control and features such as active suspension. But the next generation of micromachines will revolutionise other areas.

Many of these devices will start to see the commercial exploitation of surface micromachining (see story below). Often they will be smaller versions of existing devices. For example, some breath alcohol sensors require that an alcohol-sensitive film be heated up to 400°C, for a chemical reaction to occur.

With micromachining, the surface on which the film sits and the heating apparatus can be made very small, but the chemical process and operation of the device remain fundamentally the same.

The chemical industry is interested in micromachining to produce process control devices such as gas flow sensors and gas composition sensors, scattered in large numbers throughout a chemical plant.

The medical possibilities have attracted the interest of pharmaceutical companies, which have visions of specialised drug delivery systems and entirely new treatments. Ash Parameswaran a professor at the Vancouver institute has developed a weighing device with a tiny arm, so sensitive it will measure the mass of a single cell. He has also developed a light element a few microns across, now being made in the US.

Arrays of everything from micropumps to micro-sensors are expected to be common applications of the technology. One device, developed by Texas Instruments, uses more than 300,000 rotatable aluminium micro-mirrors to produce a bright colour-video display.

Parameswaran says no other technology has grown so quickly. In the early 1980s micromachining did not exist; by the end of the decade, up to 700 papers were being presented at each conference on the topic.

Design in a micro world

Despite similarities, the technology used to make the commercial devices now on the market – bulk micromachining – is not, strictly speaking, the same as that used for integrated circuits.

Small-scale masking and etching are used to produce both, but bulk micromachining typically creates much deeper holes in the silicon. Precise shapes can be made, thanks to the properties of crystalline silicon. Specially formulated etchants will move straight down, but not sideways, through a layer in the crystal lattice.

This also makes it possible to etch under a layer of silicon, freeing the tiny weights and levers used in devices such as accelerometers.

If bulk micromachining is like sculpting, the more advanced technique of surface micromachining is like painting – layers of material are built up and etched away on top of a layer of silicon, until the desired three-dimensional objects are formed.

Randy Frank, technical marketing manager at Motorola's semiconductor products division, says that compared with bulk micromachining, surface micromachining is more similar to the standard technology used to make most microchips.

It should allow the same bit of silicon to hold the sensor or actuator and the control circuitry, enhancing reliability and cutting the cost of devices.

Much of this is still at the laboratory stage. Commercial devices using surface micromachining are starting to appear, but Frank says sensors and controls on the same chip will not be made in large numbers until the end of the decade.

Problems include the heat or etchants used for processing the sensor ruining the integrated circuit, or vice versa. Also, the layers of material used in micromachining are much thicker than those used for microcircuitry.

Thickness is important for microgears and motors – the thicker they are, the more torque is possible. A technique developed in Germany called Liga (lithography, electroforming and moulding) allows shapes like gears to be made thicker than is possible with surface micromachining.

Liga uses high energy X-rays which penetrate hundreds of microns into a layer of polymer. The polymer is then etched away and used as a mould for a metal such as nickel. The use of metals rather than silicon to achieve greater strength or durability is also being applied to surface micromachining.

A set of techniques, developed in Japan, uses micro drills, spark erosion devices and tiny diamond lathes, which require each device to be made individually.

But Linton Salmon, director of the solid state and microstructure programme at the US National Science Foundation, says that by making single devices the Japanese will lose the economies of scale which come with making hundreds of devices on a silicon wafer.

SW

Just the ticket for parking offenders

Graham Clayton on a computer system to ease congestion

Almost unnoticed, a roadside revolution is taking place in London as new computer systems are installed to simplify parking control and to clamp down on offenders. With parking a growing worldwide problem, the developments in the capital are attracting keen interest.

Over the years, an awkward system has developed in London. In areas of "controlled" parking – yellow lines, meter bays, pay-and-display and residents' areas – the police used to authorise all clamping and towing away.

In June, this authority was handed over to traffic wardens, who always presided over yellow-line infringements. In addition, parking attendants – under the control of the local authorities – cover infringements in meter bays, pay-and-display parking and residents' areas.

By the middle of next year this will change further. Following the 1991 Road Traffic Act most parking control in the capital will be handed over to the 33 local authorities including the City of London.

The impact of the change on each local authority depends on the amount of controlled parking. Wandsworth, with very little, has implemented most of the changes on a trial basis.

Westminster, which has just over eight square miles of controlled parking, is taking the opportunity to introduce an ambitious system with new computers and mobile data networks. Despite differences in scale, the way the parking attendants work will be the same throughout London.

Westminster is about to sign a contract for 200 hand-held computers for its attendants. At present, they write each ticket by hand, put one copy on the vehicle and, at the end of their shift, hand in a duplicate. The information is typed into a computer.

With the new system, attendants will type details of the vehicle into their hand-held computers. Printers attached to them will produce the ticket and, at the end of the shift, the data will be dumped into a central system.

Another important development is the introduction of a mobile data network so that the attendants' computers can send information instantly about a car or van which, under their new powers, they want clamped or towed away. The message can indicate the degree of urgency, especially where the vehicle is causing an obstruction.

The network can also deliver information to an attendant's computer so that the typing in of a registration number could warn that the vehicle's owner has not paid previous fines. The attendant could then decide that clamping was suitable to ensure payment and open the way for discussions about the previous fines.

The heart of Westminster's approach is a central computer system, replacing the separate ones used for handling parking attendants' data, ticket processing, permits and meter maintenance. The system will provide a prioritised list to the despatchers who send out the clamping vans and removal trucks. In the cabs, details of offending vehicles will appear on screens and crews will be able to send back progress reports.

Car pounds will also be linked to the system along with a telephone help desk for distraught motorists and those seeking advice on parking.

To help motorists, there will be a "super-system" covering the capital. The Parking Committee for London, set up under the 1991 Act, will provide a number which motorists can ring when their cars have been clamped or towed away, regardless of which borough they are in. For this, it will have a computer system constantly updated by the 33 local systems. It will also be able to send data back to them to ensure, for example, that databases of persistent offenders are kept up to date.

The contract for this system is due to be signed in November. Bidders are likely to include groups like EDS Scicon of the US, which has experience of similar operations in Chicago and Spain, and smaller companies like Compex Parking Services of the UK.

For drivers who feel they are suffering from high-tech harassment, the Parking Committee will run an adjudication service. So they should at least find it easy to complain.

ARTS

Cinema / **Nigel Andrews**

Firm grip of Hollywood

THE FIRM (15)
Sydney Pollack

ANCHORESS (12)
Chris Newby

A PLACE IN THE WORLD (12)
Adolpho Aristarain

THE LIE (15)
Francois Margolin

WHEN a black street urchin does a series of impromptu somersaults on a sidewalk in Memphis, Tennessee, the hero (Tom Cruise) does a matching somersault alongside him. This majestically daft moment comes in *The Firm*, a tale of corrupt lawyers who do laundry work - and we are not talking of shirts and underclothes - for the Mafia. Master Cruise plays the initially bushy-tailed, obedient trainee who finally exposes the rotters after 2½ hours, several murders, his wife's walkout and enough chases to sate you for the year.

We are not spoiling surprises for you. In this airport bestseller turned multi-million-dollar movie, who could doubt that Cruise will triumph; any more than we doubted that he would jump up and pour moral cleansing fluid all over Colonel Jack Nicholson at the end of *A Few Good Men*. Cruise's role in modern Hollywood is that of a jack-in-the-box Mr Clean. When Cruise somersaults in a street during a film, it is not for the hell of it. He is acting out his own coat-of-arms as a modern superstar: a rampant boy-reformer leaping over the corruptly couchant body of corporate/military/legal/political America.

The Firm is ludicrous but enjoyable. We scent 150 minutes of Hollywood delirium from the first thumping chords of Dave Grusin's piano score over a lateral tracking-shot along Memphis' skyscraper-lined river. The film already plays like The French Connection and we have not yet had the credits. After that, as directed by a peak-form Sydney Pollack, it never stops or slows. Gene Hackman is the Chief Baddie in the firm Cruise joins after it wins the bidding war for his Ivy League talents and Hackman's high-class slime provides the trickle-down histrionics allowing supporting players to snarl and emote with elan.

We have Hal Holbrook as the firm's white-haired patriarch; Ed Harris as the no-haired FBI sleuth, his pate as dazzling as an interrogation lamp; Jeanne (*Basic Instinct*) Tripplehorn as Cruise's pretty redhaired wife; and Holly Hunter as the friendly detective-agency moll with the rinky-dink voice and the explosion of platinum curls. As is appropriate in a story of the good and evil things that issue from people's heads, in this film by their hair ye shall know them.

What pleases is the movie's impudent predictability. The "surprises" are ripples in a sea of see-it-coming. How will Cruise escape from an office full of men who want to kill him? (We just know that he will). What plot twist will return Miss Tripplehorn to Cruise's arms? (We just know that something will). As for the final ingenious gambit by which Cruise gets the baddies without compromising his code of honour as a lawyer, that could be second-guessed by mentally riffling through gangster history.

■ ■ ■

The Anchoress is the kind of film the British Film Institute Production Board gives us when it fears we are consuming too much junk food like *The Firm*. In 14th century England an illiterate peasant girl (Natalie Morse) declines to marry the local reeve and attracts the attention of the village priest, talent-scouting for anchorites. Soon she has been immured for life inside a church wall, there to commune with God and to eat the scraps of food pushed through a hole by her understandably distressed mother.

The film looks like Tarkovsky and plays like Monty Python. Director Chris Newby has an eye touched by divine grace. Marvel at those filter-darkened skyscapes, those rhymings of shimmering corn with fluttering birdwing or falling hair, those elastic contrasts between long shot (silhouette procession on skyline) and close-ups (giant locust, giant eye).

But Newby's ear is a different matter. Or perhaps the script by Judith Stanley-Smith and Christine Watkins was delivered as a fait accompli and he had no veto over lines like "Don't you go 'anging around those back fields, my girl".

"The film is about a poetic eye at work in a barbaric landscape," Newby has said of his first feature film. The poetic eye in this instance is Newby's. The barbaric landscape is the dramatic material on which he is required to exercise that eye.

■ ■ ■

BEING 12 is tough enough without having to deal with the added distraction of living in a police state, especially when your parents are radical agitators who have been banished to the wilderness, writes *Steven Amidon*.

Writer/director Adolpho Aristarain's *A Place in the World* is one of a host of Argentinian films dealing with that country's troubled recent past, though this one grounds itself more firmly in reality than most by employing a heartfelt coming of age story to make its political points.

Ernesto (Gaston Batyi) is a serious child whose parents are trying to fight the good fight in the backwater to which they have been exiled. Aristarain's plot concerns a hazily defined struggle between farmers and a hydroelectric company which quickly becomes a familiar tale of greedy bastards versus salt-of-the-earth folk.

The film distinguishes itself in its meticulous attention to character, not just Ernesto's proud family but also a troubled nun and a cynical geologist. And while the story's leisurely pace and occasional moral worthiness may alienate some, it remains one of the more accessible of recent portraits of South America.

The deception at the heart of *The Lie* is a deadly one. Francois Margolin's first feature concerns a seemingly happy French couple whose life is torn apart by the HIV virus. Emma (Nathalie Baye) appears to have everything - a good job as an arts writer, a cute eight year old son and a dashing, foreign correspondent partner. When she suspects that she is pregnant she goes for a test, only to learn she is HIV positive. Knowing that she could only have contracted the virus from her partner, her horror turns to anger as she investigates his life, learning that he has been doing more corresponding than his job requires, particularly at gay bars.

Heterosexual Aids is a bold, timely subject, yet just because Margolin tries to tackle big topics does not mean he gets a grip on them. Having assembled a promising group of characters and some combustible dramatic material, he fails to set it all ablaze. In the end, it is hard to tell whether this is a cautionary tale or simply melodrama hiding behind immunology. In spite of some perceptive moments and a steady performance by Baye, *The Lies* poses more questions than it has the power to resolve, that introduces more dilemmas than it has the sagacity to define.

Cruise rampant: Tom Cruise the boy-reformer again cleans up corrupt corporate America in The Firm

Dangerous embrace: Didier Sandre and Nathalie Baye in The Lie

Theatre / **Malcolm Rutherford**

Farewell, maybe

HAROLD Pinter's first full-length play since *Betrayal* in 1978 turns out to be slightly longer than advertised - nearer 85 minutes than 75 without an interval. It also looks as if it is intended to be his last, for *Moonlight* is full of references to the dying of the light without quite the rage that Dylan Thomas advised should go with it.

There are a few moans to be sure, but for the most part it seems that Pinter is happy to go gently, leaving his record to be judged as people think fit.

An old man (Ian Holm) lies on his death bed. His wife (Anna Massey) is in attendance. Three grown up children two boys and one girl, are at various times on the stage, though never directly with their father. The grandchildren, for whom he says he is waiting, do not turn up. A married couple, old acquaintances of the man and his wife, briefly do.

Nothing much happens. You would not expect it to. The effect depends on whether you think lines like "It's enough to make the cat laugh", followed after the famous Pinter pause by "Do we have a cat?" are funny. Once, in early Pinter, they were. Now, I think not. And if not funny, it is hard to find another justification.

There is some reminiscing. Plainly it has not been the happiest of marriages, but it has not been the most unhappy either. The husband has his infidelities; the wife has dabbled in lesbianism. Yet, you can hear them saying to themselves, at least they are not quite as suburban as the couple who turn up to see them.

The sons talk to each other on a separate part of the stage. Here there may be some parody. They mention places in the south of England as other people may talk about Monte, and go through lists of names like old soldiers remembering their regiments. I am unable to elucidate further: possibly it is the end of old England.

Images of death abound: not only Dylan Thomas, but also The Journey of the Magi and Shakespeare. "Take him all in all," says one of the sons of his father, "I shall not look upon his like again." There is a generous toast to those who have not made it this far: "To all those we left behind, to all those who fell at the first and all consequent hurdles." Only Prospero is missing.

Yet if this is really Pinter's farewell, the production could have been better done. The set, designed by Bob Crowley, is strangely flat: one big bed and a smaller one almost side by side. The rear of the stage remains largely unused, save for the ghostly daughter flapping about in white. In short, there is not much life, though this may be intentional, in David Leveaux's directing.

And if the aim is pathos, it would surely have been better to let Pinter play the leading role. He is, after all, a very good actor, still at the height of his powers. Then the message would have been unmistakable. But perhaps he prefers to remain enigmatic to the end.

Almeida Theatre until October 30. (071) 359 4404

Proms / **Richard Fairman**

Homegrown stars

THERE ARE not many visiting international orchestras available to the Proms this year, but that matters less than it did. British audiences are being persuaded to accept that homegrown celebrity orchestras are in season from July to September as well.

The reception given to the City of Birmingham Symphony Orchestra clearly accorded it celebrity status, which it has won in its own way. Whereas the top Austrian and German orchestras want to play the music for which centuries of tradition have made them the world's finest exponents, British orchestras claim no exclusive territory. Their specialism is diversity itself - the music of all periods, of all nations.

Arriving a week after the Leipzig Gewandhaus, Simon Rattle and the CBSO chose their ground well. In a straight fight over the German classics they would surely lose a bloody battle. The Birmingham orchestra's sound is not as refined, its ear for balance nothing like as acute. But its two concerts had impact, as a result of the vivid clash of musical styles.

On Monday, BBC2 viewers probably tuned in to see Maurizio Pollini play Mozart's C Minor Piano Concerto, K.491. It would be interesting to know how the performance came across on television. In the hall, Pollini played inwardly, often not trying to dominate, sometimes unhelpfully obscured. One sensed that his classical integrity was being questioned by a subversive orchestra, always trying to draw from him statements more passionate than he wanted to give.

The orchestral sound there lacked bite; surprising, when the musicians sank their teeth so incisively into Schoenberg's First Chamber Symphony and Stravinsky's *Pulcinella*. Rattle took the Stravinsky rather doggedly, but brought it closer to the vulgar Neapolitan street theatre than I have heard before. Horns that swaggered, lumbering basses, a trombone that blew the rudest of raspberries - every instrument played a new character in the commedia dell'arte.

The Tuesday concert journeyed to Scandinavia, but with a couple of surprising detours, perhaps to lighten the mood. Rattle's performance of the Sibelius Violin Concerto with Ida Haendel was gloomy, on the heavy side. His account of Nielsen's Fifth Symphony was more impressive by far, summoning from its depths climaxes of formidable power.

There was no logic to including Debussy's *Prélude à l'après-midi d'un faune* and the short, pithy, sardonic *Ciaconna sinfonica* by Berthold Goldschmidt; only a desire for adventure. The ominous goose-step that stamps across the latter leaves little doubt as to its date of composition: the 1930s, when its Jewish composer was forced to leave his native Germany. Growing interest in the music of that era means we shall soon be hearing more of Goldschmidt (90 this year, but still sprightly). Typical of Rattle to bring him to the Proms.

Lucerne Festival / **Andrew Clark**

Safe pleasures by the lake

WHATEVER else the Lucerne Festival may stand for, it does not stand for controversy. Lucerne, like Switzerland, is comfortable and consensus-minded: it could not be controversial if it tried. By avoiding staged opera, it remains above the political conflicts that regularly beset other European music festivals. By relying on a core of wealthy Swiss patrons, it has steered clear of economic uncertainty. It is a safe, low-risk formula which promises continuity, smooth organisation and emotional reserve.

Within these limits, Lucerne has something to offer. First, there is the setting: where else can you attend an Alfred Brendel performance in the morning, have lunch on a paddle steamer with views of William Tell-country drifting by, explore an Alpine peak by train and return to hear the Royal Concertgebouw Orchestra? Even without the lakeside scenery, Lucerne offers a chance to catch most of the big-name orchestras, conductors and soloists in the space of three weeks. Anyone wary of musical indigestion can always stay at home and select some of the live concert relays on Swiss radio. But you still end up wishing you were there - as I did when I listened to the broadcast of Mikhail Pletnev's fabulous Russian National Orchestra in Tchaikovsky's Suite No. 3, and a *Pathétique* of blazing integrity from Abbado and the Berlin Philharmonic.

Programmes have become spicier since Matthias Bamert took over as artistic director - slipping a new work by Heinz Holliger alongside Radu Lupu's performance of the Schumann concerto, or pairing Igor Oistrakh's Vivaldi with an Edison Denisov premiere. This year's theme was Russia. Lucerne must be the only large festival to have accepted the obvious pairing of Tchaikovsky and Rakhmaninov (respectively the 100th and 50th anniversary of their deaths); but the chance to explore the lesser-known chamber-recital repertoire was passed up in favour of another run through familiar blockbusters.

Where the theme did pay dividends was the exposure it gave to Alfred Schnittke, Lucerne's first-ever composer-in-residence. No new work was on offer, apparently because of ill health and the symphonies were conspicuous by their absence. But 14 Schnittke works were performed, more than any other composer.

The Lucerne programmes demonstrated just how variable Schnittke's prolific output can be. Worst of all was the Second Piano Sonata (1990), a catalogue of meandering ideas, thumping clusters and splashy pianistic clichés, which suggested a composer ill-at-ease with the keyboard. Schnittke's wife Irina certainly did nothing to soften the work's embarrassing tawdriness. By contrast, the Second String Quartet (1980), played by Sweden's excellent Tale Quartet in the same programme, came across as one of Schnittke's most elegiac and substantial works. Composed in response to the sudden death of a close friend, it owes some of its tonal language to old Russian religious motifs - but the influence is fully absorbed, the musical argument seamlessly unfolded through hiatus and repose, the tragic mood captured by quiet, meditative dissonances.

This is Schnittke at his most serious and personal, expressing intense emotions through music of astonishing harmonic freedom. But where he acknowledges his influences more obviously, I find myself less easily persuaded. At first, his stylistic many-sidedness is hard to resist because of its sheer zest and playful imagination; with greater familiarity, it starts to sound trivial and banal.

In the Concerto Grosso No. 3 for two violins and chamber orchestra (1985), vividly brought to life by Daniel Hope and Erik Houston with the Lithuanian Chamber Orchestra, Schnittke makes a convincing case simply through the technical dexterity with which he refracts the sound and style of a baroque concerto. There is a genuine synthesis of contrasting styles, filtered through Schnittke's own personality. The score also thrives on the brilliant conversational working of two virtuoso solo parts. But in less substantial works such as the melancholy Concerto No. 3 for violin and chamber orchestra (played by Bettina Boller and the Basle Radio Symphony Orchestra) or the over-extended Piano Concerto (Petras Geniusas), both dating from the late 1970s, the stylistic picking-around is at best predictable, at worst crude.

Like most of the festival's small-scale events, the Schnittke concerts took place in one or other of Lucerne's churches and suburban halls, which offer atmosphere but poor acoustics (and the occasional overlay of bell-chiming). Lucerne needs not just a replacement for its cramped concert hall, but a decent recital hall. So the prospect of a SFr194m (£88m) lakeside complex, to be opened in time for the festival's 60th anniversary in 1998, is doubly welcome.

INTERNATIONAL
ARTS GUIDE

■ BARCELONA

The Monte Carlo Ballet gives six performances of a programme of Ballets Russes choreographies, opening next Tues at Gran Teatre del Liceu. *The first opera production* of the season is Der fliegende Holländer, opening October 2 (412 3532)
● *Information* and booking for cultural events available through Caixa Catalunya from 08.00 to 14.00 (310 1212)

■ BOLOGNA

The 1993-4 season at the Teatro *Communale begins* on Sep 24 and 25 with a programme of Richard Strauss orchestral works conducted by Eliahu Inbal. The first opera *production* is Puccini's Trittico, opening Nov 27 (Biglietteria. Ente Autonomo Teatro Communale di Bologna, Largo Respighi 1, 40126 Bologna. No telephone bookings accepted. For information, call 051-529999)

■ FLORENCE

Teatro Communale Myung-Whun Chung conducts a concert performance of Der fliegende Holländer tomorrow and Sun, with a cast led by Bernd Weikl, Deborah Voigt and Ben Heppner (055-211158)

■ LONDON

THEATRE
● *Travesties:* first major revival of Tom Stoppard's award-winning comedy written in 1974. Adrian Noble directs a cast led by Antony Sher. Starts previewing tonight, *Press night next Thurs (Barbican* 071-638 8891)
● Wallenstein: Tim Albery has condensed Schiller's epic trilogy into a single evening for his RSC production. Now in previews, Press night next Wed (The Pit 071-638 8891)
● David Hare Trilogy: a three-part examination of British Institutions, written by one of Britain's leading contemporary playwrights and directed by Richard Eyre. The trilogy *runs for* 12 weeks in the Olivier Theatre - beginning tonight with a revival of Murmuring Judges, a study of the judiciary. Racing Demon, a play about tensions in the Church of England, joins the repertory next Tues, followed on Sep 23 by the premiere of Hare's new play about politicians - The *Absence of War, starring John* Thaw. There will be opportunities to see all three plays on the same day on Oct 2, 9, 23, 30 and Nov *13, 20* (National 071-928 2252)
● In the Summer House: British premiere of Jane Bowles' drama about the bonds that exist between women. Derek Goldby directs a cast led by Rosemary Harris. Just opened, runs till Oct 9 (Lyric Hammersmith 081-741 2311)
● Katie Has Been Drowned: Dutch theatre ensemble The Mexican Hound presents its juicy satire on small-town morality, punctuated by unpredictable musical interludes. Opens next Tues for six performances at start of British tour (Riverside Studios 081-748 3354)
● Hair: Michael Bogdanov's revival of the quintessentially 1960s musical, with a new generation of young performers. Now in previews, Press night next Tues (Old Vic *071-928 7616)*
OPERA/DANCE
Covent Garden The Royal Opera opens its season on Sat with a revival of Madama Butterfly starring Diana Soviero and Neil Shicoff, followed next Sat by L'Italiana in Algeri with Marilyn Horne and Ruggero Raimondi. Both are *conducted by Carlo Rizzi. The first* new production is Die Meistersinger on Oct 8 (071-240 1066)
Coliseum The new ENO season, the first organised by Dennis Marks and Sian Edwards, has two revivals in repertory - Simon Boccanegra with Gregory Yurisich and Janice Cairns, and Street Scene with Josephine Barstow and Lesley Garrett. The first new production is La boheme opening next Wed, staged by Steven Pimlott and conducted by Edwards, with Roberta Alexander as Mimi (071-836 3161)
Queen Elizabeth Hall David Freeman's Opera Factory production of Xenakis' The Bacchae, daily till Sun (071-928 8800)
Barbican Final performances of Travelling Opera's lively English-language interpretations of Carmen and La boheme are tonight, tomorrow and Sat (071-638 8891)
CONCERTS
Royal Albert Hall Tonight: Yan Pascal Tortelier conducts BBC Philharmonic Orchestra in works by Debussy, Ravel, Albeniz and Lutoslawski, with soloists Julian Bream and Jean-Bernard Pommier. Tomorrow: London Baroque and Choir of King's College Cambridge present choral music by Byrd, Handel and Purcell. Sat: Barry Wordsworth conducts the Last Night *of the Proms, with soloists Michael* Collins, Della Jones, Kathryn Stott and John Tomlinson (071-823 9998)
South Bank Centre Sun: Carlo Rizzi conducts Orchestra of the Royal Opera House in a Tchaikovsky programme. Mon: Matthew Best conducts Bruckner's Te Deum and Beethoven's Ninth Symphony. Sep 19: *Margaret Price sings Wagner's* Wesendonck Lieder (071-928 8800)
Barbican Sun: Pinchas Zukerman directs ECO in a Mozart programme. Next Thurs: Cecilia Bartoli is soloist in a Handel and Vivaldi programme with Academy of Ancient Music (071-638 8891)

■ MADRID

The 1993-4 season at Teatro Lirico La Zarzuela opens on Sep 18 with *José Serrano's zarzuela La Canción* del Olvido, staged by Pier Luigi Pizzi. The production runs daily except Mon till Oct 10. There is a guest performance of Jonathan Miller's ENO production of Rigoletto on Oct 18. Martha Graham Dance Company is in residence from Oct 27 to 31, followed in Nov and Dec by a flamenco production, Compagnie Angelin Preljocaj and Spain's National Dance Company. The opera programme begins in Jan with Der Freischütz (01-429 8225)

■ PRAGUE

FESTIVAL OF MUSIC
In addition to the Prague Spring Festival, the Czech capital has built an autumn music festival around the distinguished violinist Josef Suk, consisting of recitals and other small-scale events. This year's *festival (Sep 20-Oct 5) features a* strong dose of Beethoven, Bach and Mozart, alongside familiar and less familiar Czech composers. Artists at the festival include Yo Yo Ma, Maurice André, Cecile Licad, Rudolf Buchbinder, Viktoria Mullova, Shlomo Mintz, Renato Bruson and Sandor Vegh. Among the more *exotic programmes is a choral* concert on Sep 25 pairing Schubert's Mass in G with a Stabat Mater by late 18th century Bohemian composer Johann Baptist Vanhal. Bookings from Festival of Music Prague, Cs armady 12, 160 00 Prague (fax 02-526583) or Bohemia Ticket International, Salvatorska 6, 110 00 Prague (fax 02-231 2271)
OTHER EVENTS
The Czech Philharmonic Orchestra's *winter season at Dvorak Hall opens* next Thurs and Fri with an unusual programme conducted by Vaclav Neumann, consisting of works by Karel Husa, Lutoslawski and Martinu (02-286 0111). The Prague Symphony Orchestra's new season opens Smetana Hall on Sep 21 and 22 with a Beethoven and Mahler programme conducted by Martin Turnovsky (02-232 2501). Prague State Opera's repertory this month includes Otello, Entführung, Tannhäuser, Les Contes d'Hoffmann and Cosi fan tutte (02-265353). The National Theatre has La forza del destino, The Bartered Bride, The Devil and Kate, Lucia di Lammermoor, Rusalka and La boheme (02-205364). There are staged performances of Mozart operas at the Estates Theatre on Sep 13, 15, 22 and 29 (02-228658)

■ STRESA

The annual music festival in this north Italian lakeside town offers two piano recitals this weekend - by Lazar Berman on Sat and Pavel Nersessian on Sun. Claudio Scimone conducts I Solisti Veneti on Mon in works by Boccherini, Tchaikovsky and Richard Strauss. *In the closing concert on Sep 16,* Viktoria Mullova will play Mozart's First Violin Concerto, accompanied by the Orchestre National de Lyon under Emmanuel Krivine (0323-31095)

■ WARSAW

This year's Warsaw Autumn contemporary music festival (Sep 17-25) offers birthday tributes to Penderecki (60th) and Lutoslawski *(80th), and includes a new work* by Gorecki and the first Polish performance of Messiaen's Eclairs sur l'Au-Delà. Alongside the leading Polish orchestras, there are visiting ensembles from Lithuania, Germany and the Netherlands (022-311634)

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

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Wednesday Super Channel: Financial Times Reports 2130
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Friday Super Channel: European Business Today 0730; 2230
Sky News: Financial Times Reports 0530
Saturday Super Channel: Financial Times Reports 0930
Sky News: West of Moscow 1130; 2230
Sunday Super Channel: West of Moscow 1830
Super Channel: Financial Times Reports 1900
Sky News: West of Moscow 0230; 0530
Sky News: *Financial* Times Reports 1330; 2030

Two of a kind: David Marsh on former political leaders who advocate closer European integration

An architect of Maastricht edifice

Is this the face that launched a thousand summit communiqués? Mr Giulio Andreotti, seven times Italian prime minister, sits behind his crowded desk in an elegant, ochre-coloured building near the Pantheon in Rome. He looks unusually crumpled.

Mr Andreotti, 74, who started his governmental career in 1947, is part of the backbone of Italy's postwar history – a veteran of the Christian Democrat party and of its domination of four decades of politics.

A principal architect of the Maastricht treaty, he ranks as one of the foremost Italian proponents of closer European integration. Ironically for Mr Andreotti the Europeanism which he has so long fostered provides a principal reason for the new impatience in Italy about the country's near-endemic political corruption. As the Christian Democrats slide from their former pivotal position amid a tide of scandal, history is starting to catch up on him.

Murky allegations of political impropriety have dogged Mr Andreotti throughout his long career. So far, they have always been unproven. This time, however, the accusations have been mounted more energetically. He has been forced to waive his parliamentary immunity to answer charges being pressed by magistrates in Milan, Palermo and Rome. They relate to allegations of consorting with the Mafia, being responsible for the death of a journalist killed in Rome 14 years ago, and organising illicit political financing. Mr Andreotti has protested his innocence.

A mantis-like figure, clad incongruously in a blue cardigan under his smart suit, Mr Andreotti clasps a tube of nasal inhalant in his right hand, and takes frequent telephone calls with his left. Testifying to his impeccable Catholic credentials, his small office is crammed with crucifixes, giving it the appearance of a reliquary.

Speaking before the most serious charges were raised this summer, he termed the claims "perfidious manoeuvres" by political enemies.

Mr Andreotti says Italy's internal upheavals reflect the

Colin Beere

Andreotti: 'I don't think we can announce Maastricht's defeat'

still greater changes in the former Soviet Union and eastern Europe. The Christian Democrats' previous supremacy, made possible by the postwar necessity of countering the Italian communist party, was part of the former stability of Europe's cold war structures. "We are seeing the long-lasting waves caused by the end of communism," he says. "The old political truths have vanished."

The ending of east-west division and the reunification of Germany spawned the Maastricht treaty, aimed at accelerating west European integration. But the Maastricht programme itself has been blunted by two years of economic and political shocks.

These shocks appear to make European union less feasible. Mr Andreotti thinks they also make it more necessary. "The fact that Europe is not yet strong enough to resolve problems like Bosnia, and the necessity to have a monetary order – these are reasons why we should multiply our efforts to find solutions."

Recalling the atmosphere in which the Treaty of Rome (which set up the European Community) was negotiated in the 1950s, he says: "We who are old can remember the suspicion towards Europe at the beginning. People said it [the EC] was not possible. But Europe has worked well."

'People said the EC was not possible. But Europe has worked well'

He puts forward a particular reason for pressing on with the Maastricht treaty: to accommodate a larger Germany within a united Europe. In 1984, he won notoriety in Germany by saying he would prefer the Germans to remain divided. Now that the nation is reunited, he believes Germany will inevitably reshape its European policies in coming years.

Asked whether the next chancellor will be less interested in European union than Mr Helmut Kohl, he replies: "Perhaps not the next one, but his successor."

Germany can no longer be relied upon to continue its postwar policy of balancing obligations and responsibilities to east and west, he says. He evokes the names of Willy Brandt, the former West German chancellor, and Hans-Dietrich Genscher, former foreign minister.

"Perhaps Germany will no longer be the Germany of Kohl nor of Genscher nor of Willy Brandt. We don't know what sort of Germany it will be. It could be a strong Germany, in an isolated and fractured Europe."

Fears that Germany's western ties will be loosened explain why Mr Andreotti has been in the vanguard of efforts to harness Germany and its D-Mark through economic and monetary union. He played an important part in hatching the Emu plan agreed at Maastricht in December 1991. In a discreet eve-of-summit dinner with President Francois Mitterrand in a hotel in the Dutch city, Mr Andreotti formulated the timetable for introducing Emu by 1997 or 1999. "This preparation was the result of [our] personal contacts, as well as work by our officials," he emphasises. "It wasn't improvised."

Mr Andreotti parries the suggestion that Germany's post-unification difficulties make this timetable unachievable. "I don't think we can now announce the defeat of Maastricht."

On the other hand, even before last month's monetary upheavals, he was resigned to the likelihood that his cherished plan would be delayed. "Kohl's fundamental idea is that monetary union should not go forward without political union. If for domestic [German] reasons, such as the additional costs of unification, we should now have a less rapid timetable, that could be agreed. Fundamentally there is no alternative but to make great efforts to realise, at the least, the spirit of Maastricht."

Accomplishing the spirit of Maastricht, rather than implementing its content, may not amount to much. But as Mr Andreotti contemplates his crucifixes, reviews his options, and faces his enemies, it represents one last straw to clutch.

Regretful note over unity's path

Mr Helmut Schmidt, the Social Democrat chancellor of West Germany from 1974 to 1982, is wealthy, and worried.

Wealthy because several best-selling books on German and international politics have brought a considerable income since he left office. His latest, on the travails of unified Germany, has sold about 100,000 copies since spring – but will earn him, he says, less than the originally expected DM1m because recession has damped demand. He is using the funds to help set up a foundation with other well-known Germans to help his country come to terms with reunification – a phenomenon most Germans (he included) thought they would never witness.

Worried, because so much in Germany seems to be going awry. He concedes however, that he sometimes exaggerates his fears of German instability. In his book, he describes how earlier this year he dreamt that the Nazis had returned to power, closing the heavyweight newspaper Die Zeit, of which he is co-publisher.

"Maybe I shouldn't have written this," admits Mr Schmidt, framed against encyclopaedia-lined shelves in his Hamburg editorial office. "I put it in to show how deep my concern is. I don't really think the Nazis will take over."

He says the break-up of the blocs of east and west has made not just Germany but all Europe more brittle.

The new uncertainties have increased his support for European integration. "I want Germany to be part of a greater Community. It is in Germany's self-interest to bind itself in." But they also appear to have made this goal more difficult. The man who, along with French president Valery Giscard d'Estaing, launched the European Monetary System in 1979 says last month's forced widening of the system's fluctuation bands has "decreased the chances" of economic and monetary union by 2000.

"I am rather sceptical. None of the governments – neither London, nor Paris, nor Bonn – understands the importance of monetary union." Unless the D-Mark is replaced by a single European currency, the German currency will one day be "overwhelmingly strong". This would eventually make the Germans the "masters" of the European Community – a position which, he says, would rebound on Germany by making it vulnerable to "coalitions" of European states formed to curb its strength.

UPP

Schmidt: 'I want Germany to be part of a greater Community'

He expounds his well-known complaint that the Bundesbank is blocking progress on Emu. "Under monetary union, it would become just another affiliate of the European central bank. I can understand why it dislikes this." He says, however, "not only the Bundesbank is damaging the process." He terms a principal cause of last month's upset "the unwillingness of the French and German governments" to adjust the D-Mark/French franc EMS parity earlier in the spring or summer.

'On the news, politicians provide platitudes, not deep arguments'

A second effect of the uncertainties has been to increase Mr Schmidt's popularity with the German electorate. Support for both Chancellor Helmut Kohl and the Social Democratic leadership – for which Mr Schmidt has no great regard – is at a low ebb, increasing his appeal as an elder statesman. Earlier this year, Mr Schmidt says he was "besieged" with letters from Germans entreating him to stand for the chancellorship. His secretaries sent off replies, pointing out he is 74. The letters have now stopped.

Mr Schmidt, in poor health, knows he will not make a come-back. He says a possible outcome of next year's general election will be a grand coalition between Mr Kohl's Christian Democrats and the SPD.

Despite his health problems, his capacity for work remains formidable. It took him five weeks to write his latest book, during a holiday last winter on the Canary Islands. For relaxation, he organises meetings of former international leaders, who exhibit collective anguish at their successors' failure to solve world problems.

One of the biggest headaches is Germany. For all Mr Schmidt's fears of eventual German dominance, his preoccupation at the moment is the lengthy period Germany needs to cope with its challenges.

"In economic terms, unification will in the main be successful within 15 to 20 years... Coming to terms with our national identity – trying to get the same answer to the question 'What does it mean to be a German?' from a man in Dresden and a man from Aix-la-Chapelle [Aachen] – will take longer, maybe 40 years."

Although his notorious irascibility seems to have softened, he still dispenses liberal doses of vitriol. Despite his support for monetary union, he calls the Maastricht treaty "monstrous". "There are far too many things in one document. If you just wanted monetary union, you could have done it in 10 or 12 pages."

He says shortcomings in German politics are partly the result of television. "On the news, politicians provide platitudes, not deep arguments. These are politicians who could also have chosen a career presenting talk-shows."

Relations between Mr Schmidt and his successor are icy: Mr Kohl, he says, "has avoided asking for my counsel". While Mr Kohl "deluded himself" about the realities of unification, Mr Schmidt says he would have raised taxes immediately in 1990 to help finance the unification-induced rise in public spending.

What verdict will history offer on Mr Kohl? Mr Schmidt's reply is balanced: "He's been a successful politician so far. He grasped the chance [of unity] offered by [Mr Mikhail] Gorbachev's domestic situation. After that, he's not been convincing in the economic field. However, it is questionable whether any one else at the top level of political class in either party would have done better."

This seems to express both his low opinion of contemporary German politicians and a winsome disappointment that, when the bell of German unity rang out three years ago, a certain Helmut Schmidt was not 10 years younger. His disappointment seems unlikely to wither with age.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

'Silliness' of radiation proviso

From Mrs Ann Barrett.

Sir, On reading that Nuclear Electric had applied for authorisation for radioactive discharges from Sizewell B ("Talks on Sizewell application", August 13) and being worried for my children's future, I wrote to the National Radiological Protection Board for reassurance that the lower annual radiation dose limits which it had recommended in 1987 would be enforced.

Its reply advised me that its role is "advisory rather than regulatory" and that it is up to the "authorising departments" and the Health and Safety Executive to ensure discharges and doses are "within the appropriate limits". The NRPB also enclosed a memorandum on potential Thorp discharges. Reading this lengthy document, I came to this statement: "It was assumed that infants and children spend 90 per cent of the time indoors." I read no further.

To me, the silliness of this statement rivalled that of the Health and Safety Executive/UK Atomic Energy Authority's in their publication of January 1989, The Tolerability of Risk from Nuclear Power Stations (HMSO £12). This told us that if there was "a Chernobyl-scale accident" in this country, "no one will die," people would merely "suffer some degree of life-shortening."

Ann Barrett,
9 Hartington Grove,
Cambridge CB1 4UE

Science a bleak career prospect

From Mr Brian Lewis.

Sir, I am able to manage but one wry smile at the pious hope for the future of chemistry expressed by John Cox, director general of the Chemical Industries Association (Letters, August 28/29). Like the rest of us science graduates, one must suspect that most directors of the CIA are there because they, too, were not really wanted by their industrial employers.

The fact is that many managers with science degrees from such UK companies as ICI, BP or Shell have had their careers curtailed unexpectedly early over the last 20 years (starting about 1973) and have been encouraged to work overseas for foreign competitors.

Perhaps Mr Cox would tell us how many employees with science degrees in the British chemical industry have been retired early or made redundant since 1973. One would wager it to be a significant proportion of total UK private industry science manpower!

It is hardly surprising that the children of the scientifically qualified do not see much future in science and seek greener pastures elsewhere, even if we might all agree (but only in theory) that it is impossible to run a country as technically sophisticated as the UK without managers strongly grounded in science.

Surely the message of the last 20 years is that jobs in banking, foreign exchange, investment management, property development, restaurants and politics (anything but science-based industry) pay much better than any job in science: Is Mr Cox surprised at our intelligent children noticing?

Brian Lewis,
PO Box 5101,
Riyadh 11432,
Saudi Arabia

Warnings suppressed by the Politically Correct

From Mr Theo Theocharis.

Sir, In Bronwen Maddox's article, "Greens' bogus science" (September 6), she correctly remarks that the distortion of the scientific method by certain green organisations "destroys any notion of proof" and can therefore "cause legal mayhem".

This is merely a special case of a deeper and wider malaise. Six years ago, also in connection with the perennial public mistrust of science, a colleague and I published an article entitled "Where Science Has Gone Wrong" in Nature (Vol. 329, pp. 595-8, October 15 1987), in which we explained that the currently taught philosophies of science are epistemologically flawed and socially dangerous. These philosophies reject completely the concepts of scientific objectivity, proof, truth and certainty. These philosophies have therefore been embraced with enthusiasm by all Politically Correct movements which think that objectivity, etc, is the invention of first world science so that its multinational companies can exploit and oppress the Third World, the minorities and the environment.

Regrettably, our 1987 warnings were suppressed by the Politically Correct, and overlooked by the Politically InCorrect, to the further detriment of both science and society. I hope that now they will be heeded.

Theo Theocharis,
200 Merton Road,
London SW18 5SW

SingalongwithMarx - but to a different tune

From Mr Andrew G Gibbs.

Sir, Joe Rogaly, in his article, "Marx the musical" (September 7), doubted whether any of his readers would be able to whistle the tune to the chorus beginning "Strong as the steel which we shape with precision".

I cannot whistle but I suggest singing it (in the bath in my case) to the tune Epiphany Hymn, used for "Brightest and best of the sons of the morning". I think it sounds very good.

My wife would disagree.

Andrew G Gibbs,
23 Shooters Hill Road,
Blackheath,
London SE3 7AS

Privatisation has made little difference to BT performance

From Mr J M Harper.

Sir, Michael Cassell's article on privatisation and prices ("On the bandwagon", August 27), raised important questions, but I am afraid fell into some usual traps. There are no absolute yardsticks in the utility price game. Even foreign comparisons are meretricious because of the near impossibility of comparing like for like and the constant shifts in exchange rates.

He also failed to recognise the profound effect of variables specific to the industries. In the case of British Telecommunications the telephone system grew by a factor of three between 1970 and 1992; and usage grew even more. By privatisation, unit costs were steadily dropping; and the sheer volume of revenue was so great and it was growing so fast that the price increases needed to maintain profitability were bound progressively to drop. The enduring economic boom of the 1980s intensified the effect.

History does not begin at privatisation. The useful analysis is over significant periods before and after privatisation; using variables which have an independent meaning. Inflation raised prices generally by a factor of 7.6 over the 22 years 1970-1992. Those of BT rose only by a factor of 4.3 over the same period. They have fallen steadily below general inflation ever since 1982. Privatisation in 1984 had no perceptible effect on this trend – up or down.

BT's real output per head of staff, measured at constant BT prices, has been rising remarkably consistently at 7.5 per cent ever since 1970. The only significant setback to this trend was immediately after privatisation. It has been retrieved by the recent staff reductions. There is a similar pattern in improvement in network service: 3.4 per cent of local calls failed in 1971, but by 1992 the percentage had been reduced to 0.2 per cent. Again, there was a setback after privatisation, but it has now been retrieved.

The true lesson in BT's case once trends are measured over time seems to be that privatisation has made little difference. It would be interesting to see a similar analysis for the other industries.

J M Harper,
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FINANCIAL TIMES

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Thursday September 9 1993

First world debt burdens

THE extraordinary buoyancy of global bond markets is giving the biggest debtors in the developed world an exceptionally comfortable run for their money. One indication of the benign climate for borrowers is that Italy, with a public sector debt stock of more than 110 per cent of gross domestic product, is preparing to launch a record multi-billion dollar debt issue in the international markets. Another is that the UK Treasury, whose performance on inflation has been conspicuously poor, has already met two-thirds of its funding needs in the first five months of the financial year. Is there a risk that the seeds of a first world debt crisis are now being sown?

Certainly debt in the developed world has been creeping ominously upwards. The OECD estimates that in the five years to 1994 net public debt will rise from just over 31 per cent to 39 per cent of GDP. Within these figures the debt burden is heavily biased towards Europe, where the build-up is expected to accelerate sharply over the same period from 41 per cent to 54 per cent of GDP. Yet the bond markets remain enthusiastic; and their enthusiasm is increasingly directed at those countries whose poor past performance in managing public finances results in higher than average yields.

Bond yields

Convergence in bond yields, a process originally sparked by the push for monetary union in Europe, seems not to have been destroyed by the débâcle in the European exchange rate mechanism. Today, 10-year bonds in Britain, France and Germany all trade within the same narrow band of between 6 and 7 per cent, despite these countries' very different experiences of inflation over the past three decades. Countries such as Italy and Belgium, meantime, are diversifying their borrowings into foreign currencies. This provides reassurance to creditors, in the sense that the debtor cannot go down the route of inflation and devaluation without facing a huge increase in the real burden of foreign debt. But it also raises the stakes sharply for a debtor struggling with intractable budgetary problems.

The markets are unquestionably right about one thing. Inflation is not a global problem at present. The question is rather whether the risk of default, either directly or through inflation, is adequately discounted in the bond prices of individual countries. Given that real debt yields in the more heavily indebted countries tend still to be above the likely trend of growth in GDP, debt stabilisation will still call for some unpalatable fiscal measures. In other words investors are taking a great deal on trust.

Market liberalisation

The best reason for thinking that fund managers may not have taken leave of their senses is that the liberalisation of currency and financial markets, as well as making it easier to borrow, has made it harder to default. Governments know that if policy ceases to be credible, international markets will simply switch off the financial tap. In the absence of exchange controls, politicians can no longer rig domestic markets to ensure that investors buy their IOUs. They have little option but to monetise maturing debt by borrowing from domestic banks, the equivalent of printing money.

This argument would certainly provide a rationalisation for the narrowness of the range within which bond yields have settled. If there is no middle ground in a world of free capital flows between very low inflation and very high inflation, then the variations in creditworthiness between different countries should indeed have narrowed as a result of this increase in the cost of lax policy. But the bond market's euphoria rests heavily on the borrowers' recognition that freedom comes with increased responsibility. The postponement of politically difficult budgetary decisions simply means that the credit crunch will be more devastating when it comes. A hint of what might happen if policy fails to convince came last week when investors started to panic about Belgium, where net public debt of more than 130 per cent of GDP looks worrying without the support of an ERM with narrow bands and the prospect of monetary union.

In the final analysis the crucial judgement is about the politics of the indebted countries. Too few bond investors are looking beyond the short-term financial horizon.

Modernising the TUC

THE OBSTACLES standing in the way of the re-launch of Britain's trade union movement were on full display at the TUC Congress in Brighton yesterday. The first big speech by Mr John Monks as general secretary elect was partly eclipsed by the threat of a walk-out from left-wing unions over the return of the electricians union to the TUC. The speech was also preceded by a violently worded debate opposing human resource management techniques, something which wiser heads in the trade union movement are trying to influence rather than reject.

Mindful of such constraints, Mr Monks's speech betrayed only glimpses of the modernising spirit which he seems to represent. It was an address concerned firstly to establish his standing with the delegates in the hall and only secondly with the outside world.

Yet the arrival of Mr Monks is to be welcomed. He will speed up the transition of the TUC itself from a redundant civil service of the labour movement to a "centre of excellence" concentrating on a few issues like occupational pensions and safety at work.

He will also try to distance the unions from the Labour Party – a process which Mr John Smith, the Labour leader, may have slowed with his effusive speech to the Congress. The arguments in Mr Monks's speech yesterday about how employment insecurity contributes to a broader social instability were aimed at Conservative MPs who cherish family values.

Turning the TUC into a more politically neutral lobbying organisation trying establish new coalitions over workplace issues is worthwhile, regardless of whether Mr Monks can strike up a productive relationship with Mr David Hunt, the employment secretary.

Constructive relationship

The latter says he has "an open door" for the TUC, which almost certainly promises more than it will deliver for the unions. Indeed, although both Mr Hunt and Mr Monks have their own reasons for wanting to establish a constructive relationship, it is difficult to imagine what they can usefully talk about at present, with the possible exception of training.

But to deserve an audience, the TUC must prove its continuing relevance to employers and employees across a reasonable spread of the UK economy and that it has realistic proposals for reforming the labour market. There was little in Mr Monks's speech to indicate much progress on either count.

The insecure workplace is not, as might be expected, causing a resurgence of trade unionism in Britain and there is no evidence that "the tide of opinion is turning... to regenerate British trade unionism", as Mr Monks asserted.

Workplace insurance

Elsewhere he has spoken about appealing to the middle managers of "middle England", but this requires more than talking to the government instead of the Labour Party. It means developing a concept of trade unionism that transcends collectivism. Some unions are tackling this by providing support for the negotiation of individual contracts and legal backing for individuals over redundancies and grievances. Such individual workplace insurance is not appropriate for all workers, but it could be made attractive to many more if unions did not hold so many negative associations for them.

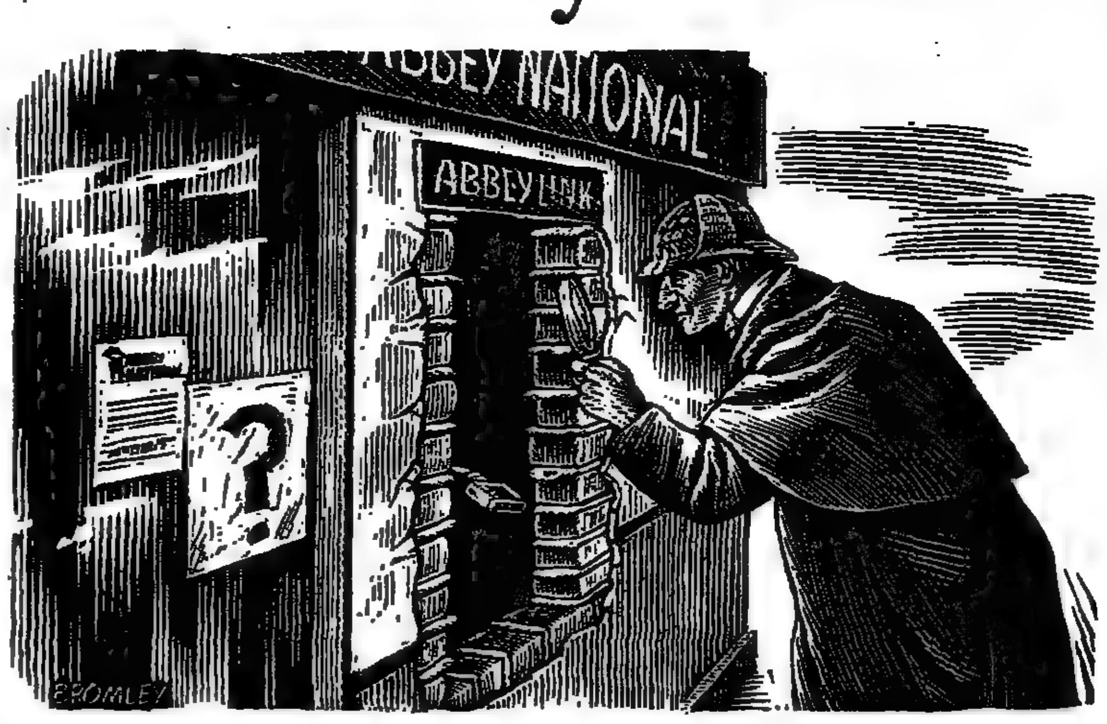
Mr Monks must show he has something relevant to contribute to the public policy debate beyond denunciation of the new labour market realities. His speech showed only nostalgia for the age of the steady job, without discussing the irresistible forces behind greater labour market mobility.

Britain has always had a relatively deregulated labour market, the effects of which used to be softened for many workers by membership of strong unions. With the decline of those unions and the rise of more varied forms of work, there is a case for new forms of labour regulation that combine minimum standards of protection for employees without placing job-killing restrictions on employers operating in volatile and flexible markets.

The government is evidently unclear about whether it wants another round of employment legislation in the near future. But it may be persuaded that new thinking is required to establish a better combination of flexibility and security at the workplace. The TUC should be part of that debate.

John Gapper says the actions of a former UK building society have prompted questions over its strategy

Curious case of the Abbey's habits



Each week, about 100 letters arrive at the headquarters of Abbey National, the UK mortgage lender and bank, asking for mysteries to be solved. The letters are addressed to Sherlock Holmes, Sir Arthur Conan Doyle's fictional detective, who lived at 221b Baker Street, Abbey's address. Yet even Holmes's analytical powers might have been tested by the strange case of the former building society.

Abbey has behaved oddly of late. Within one month, it has disclosed bad debt provisions of £94m in France because of poor commercial property lending; sold its 347-branch estate agency business for £8m after sustaining a loss of £258m over six years; and set up a joint venture with Baring Brothers, the merchant bank, to sell companies derivative financial products such as interest rate swaps and options.

If Abbey were a Conan Doyle character, its relatives would have visited Holmes to express their bafflement by this time. As it is, its share price has dropped by 4 per cent relative to the stock market over the past month and financial analysts have been asking questions. "Abbey is sending odd signals to the market by going into derivatives, and I am a bit worried about it," says Mr John Wriglesworth, of UBS Securities, the stockbroker.

Abbey's latest revelations have only added to a sense that it is a curiosity among UK financial services companies. It is the first and only of the country's 88 building societies to have converted from mutual ownership. Since its flotation of shares four years ago, it has carried on raising money from retail depositors and lending to mortgage borrowers. But it has also diversified into a series of new businesses.

The biggest diversification has been its growth of treasury assets, including syndicated commercial loans, debt securities and even six aircraft leased to British Airways. Its treasury assets have more than doubled since 1990 to £24.8bn, compared with £42bn in mortgages. It has reined in growth of treasury assets this year, but Abbey may eventually have to allocate a further £3bn of its capital resources to the derivatives unit.

Profits from Abbey's treasury have helped to maintain its earnings over a tough period in the housing market. But they have also led to questions over whether it is taking on risks it does not understand. This happened to TSB, the retail bank, which has had to make provisions of £380m on bad corporate loans made by Hill Samuel, the merchant bank it bought after its 1987 share flotation.

Abbey's management reorganisation announced yesterday is partly an attempt to prevent mishaps by imposing stronger controls. Yet Mr Peter Birch, Abbey's chief executive, says it does not mind attracting attention by marching out of step. "We are a hybrid," he says. "I hope that no other societies convert because we succeed by being different. If a lot of others follow, it might clutter our way forward."

The difficulty is defining exactly what its way forward is. Abbey's traditional business of mortgage lending using funds deposited by savers has been squeezed by interest rate falls since Britain left the European exchange rate mechanism last year. As savers have transferred money into investments such as unit trusts that offer higher returns, it has become cheaper to raise funds by borrowing from wholesale money markets.

This has worked in favour of banks such as Abbey in the short term, because societies have strict limits on wholesale funds. Abbey has sold 23 per cent of all new mortgages this year, largely using wholesale funds. But its share of retail savings has fallen, and lending margins have narrowed owing to the cost of such funds. Its scope to raise margins has been curtailed because most new mortgages have been fixed rate.

Mr Wriglesworth argues Abbey has made a crucial switch of strategy by concentrating on wholesale-funded lending. "It is starting to behave like a bank rather than a society," he says. He thinks this could damage Abbey's ability to ride out future dips in profitability. Because of treasury assets and fixed-rate lending, its margins are more tightly fixed than its main competitor, the Halifax Building Society.

> **It is difficult to define exactly what the Abbey's way forward might be**

As banks try to increase mortgage lending, competition is likely to stiffen. Yet Abbey's last attempt to defend itself against competition led to its blunder in estate agency. In common with other societies, it bought agents to ensure that they would recommend Abbey mortgages. But, by the time of the sale, it was only selling 5 per cent of its mortgages through its agents, and had suffered big losses.

The second mistake was to expand into France. It bought a mortgage and commercial property lending business for £40m in 1989, but has been hit by the commercial property downturn. Mr Ian Harley, Abbey's finance director, says this is one reason why it is no longer treating subsidiaries as separate profit centres. "There is a tension between control and delegation, and in France we arguably got it wrong," he says.

Mr Birch also points out that it has made other investments in its retail business that he believes worthwhile. One is the £500m spent since flotation on upgrading its 680 branches. The other is the £285m purchase of insurance company Scottish Mutual in 1991. This has created a wholly owned life insurance arm through which Abbey sells its customers savings products and policies linked to its endowment mortgages.

Yet such investments do not distinguish Abbey sharply from Halifax or other societies. The area in which it has far more flexibility is its treasury. Abbey's flotation gave it a large amount of capital, and allowed a wider use of the money. Societies' treasuries are largely confined to raising funds for mortgage lending. Abbey operates under the looser constraints of Bank of England supervision.

Abbey's ratios of capital to assets are far stronger than other large UK banks, which gives it an AA credit rating. This allows it to borrow and lend on international capital markets at premium rates. It has gradually moved from simply financing mortgage lending to leasing equipment in order to cut its tax charge and investing in securities. It made £66m profit on these activities in the first half of this year.

Yet there are two concerns. One is over the risks that Abbey may be running, epitomised by the move into derivatives. Mr Harley insists that Abbey errs on the side of caution. He cites its policy of ensuring that 90 per cent of all leasing assets are underwritten by other banks. "We deliberately take smaller spreads than we might do because we are extremely careful. We are very strict about risk," he says.

The second problem is the logic of such activity. Mr Birch admits it is largely opportunistic: Abbey has the capital and this is a convenient way of using it. "We think that one of the safest ways of using our capital for now is to put it into treasury assets," he says. Yet such corporate lending and finance activities – no matter how profitable they are – do not fit easily with its roots as a mortgage lender.

The obvious alternatives would be either to use its capital to acquire another retail bank or mortgage lender, or to give it back to shareholders. Mr Birch says Abbey has examined nearly 150 other companies since flotation with a view to buying one, but has not yet found a good fit. He does not favour handing back capital because Abbey wants to keep its credit rating, and even raise it to the rarefied heights of AAA.

Abbey will soon face stronger pressure to make sense of a business that stretches from making unsecured personal loans to trading interest rate swaps. In July next year, five years after the flotation, the temporary ban on the bank being taken over will lapse. It would be expensive to swallow since its shares are currently worth about £5.2bn, but any substantial error could now bear the penalty of increasing its vulnerability.

Mr Birch is sanguine about such a notion, arguing that no other financial services company is in a position to take on Abbey. "If anyone can really extract increased value out of our business, then good luck to them," he says. But while it remains a hybrid, it will continue to provoke curiosity. If Abbey's management cannot resolve the mystery, others may be tempted to take up residence at 221b Baker Street.

Too many sentences stuffed with 'I'

BOOK REVIEW

The Turbulent Years
My Life in Politics
By Kenneth Baker
Faber and Faber £20. 498 pages

It is time to call a halt to political memoirs. This is not because of indiscretions, of which political memoirs contain regrettably few. It is because of excessive length, self-justification and a tendency to tedium.

When Lord Butler's The Art of the Possible was published in 1971, it ran to 274 pages. Lord Home, who had been prime minister, ran to 320 in 1976, but the number of words to the page was smaller. Both books remain enjoyable and informative to this day. Butler, in particular, was regarded as a model for future writers. Lord Healey studied him closely, yet still came out with 607 pages in the Time of My Life. Lord Lawson set the record for a single volume with his 1,119-page Memoirs of a Tory Radical earlier this year, yet at least, like Healey, he had something to say.

Kenneth Baker's effort at 498 pages is the most egocentric book I have ever read. One doubts if even the FT's computer could count the number of usages of the first person singular. Even the title is a mix of the pretentious and the banal. There have been many "turbulent years" in British politics apart from the 1980s, and so far as the 1980s were turbulent it was not entirely because of Baker.

It is true that one may have underestimated his ambition to be party leader. I had forgotten that when he became party chairman in 1989 Ladbrokes made him the 2-1 favourite to succeed Margaret Thatcher, against 7-2 for John Major and 4-1 for Sir Geoffrey Howe and Michael Heseltine; the political journalist Peter Jenkins still had him as co-favourite with Heseltine almost a year later.

It is also true that Baker has had a slightly unfortunate political career: on the wrong side at the wrong time. He was essentially a "Heathman". When Edward Heath lost the general election in February 1974, Baker felt obliged to stay with him even though he was plainly itching to move on. He became Heath's parliamentary private secretary, "a rare example of a rising politician joining a sinking ship", as he notes in his selective quotations.

The Heath attachment initially cost him dearly with Mrs Thatcher. Advancement came slowly. It was not until 1985 that he entered the cabinet as secretary of state for the environment. He took his place at the end of the table, "but with each reshuffle," he adds, "I moved closer to the middle".

It is true again that he has some achievements to his credit: the promotion of information technology, for example. It is slightly less plausible, as he suggests, that he was the main driving force behind the privatisation of British Telecom and the water industry. In some areas where he was active he left behind rather a mess: for instance, the abolition of the Greater London Council without a successor governing body for the capital. On the community charge or poll tax, he argues that all would have been well if his original conditions, such as running it alongside rates, had been implemented.

He did much better at education. It is a strange fact that he was one of the few secretaries of state in recent decades to look at the educational system as a whole. Mrs Thatcher did not make much of a fist of it when she did the job herself; she neglected it in her early years as prime minister. Baker at least sought fundamental reforms and the raising of standards. He stayed for three years (almost a Conservative record) before being moved to the party chairmanship.

The trouble there was that while he was not a great friend of Mrs Thatcher, he came to admire her and wanted her to stay. As a cabinet spending minister, he claims that he was one of the few who consistently stood up to her. This led to a certain mutual respect. By then, however, the prime minister's days were beginning to be numbered and Baker was again riding the wrong horse. He seems to have done this with some honour, at least according to his memoirs: certainly he did not conspire against her, as the right-wing of the party had thought he would.

After her fall, he became briefly home secretary, then turned down the Welsh Office and left the government when Major won the 1992 election.

Yet the real sadness does not concern his career. It is that a man steeped in English literature and English history should dash off such a memoir: not much edited, not well-written and entirely without detachment. Kenneth Baker, the former education secretary, should be ashamed of himself. One hopes Lady Thatcher will do better.

Malcolm Rutherford

OBSERVER

Noses out of joint

■ Rupert Pennant-Rea, new deputy governor of the Bank of England and erstwhile editor of the Economist magazine, is at last putting his famous reforming zeal into practice.

Senior bank staff are in mourning because he has announced the abolition of the Golden Trough. This is the nickname of the dining room on the fourth floor of the Bank reserved exclusively for 35 senior officials, including the department heads. The only identifying mark on the door is a big "private" sign.

It was set up in the 1930s to allow the chief cashier, who then acted as Bank chief executive, to keep in touch with the officer class. Since then it has become, in the words of one stricken official, "a wonderful perk".

However, Pennant-Rea believes that such privileges are divisive and old-fashioned. From January the executives will have to troop across Lothbury to the staff canteen in King's Arm Yard and eat with the other ranks.

He is also making the canteen more egalitarian by abolishing a separate area reserved for principals, the rank below senior officials. However, Pennant-Rea himself will be able to avoid rubbing shoulders with the troops over lunch. The directors' private dining room is to be retained.

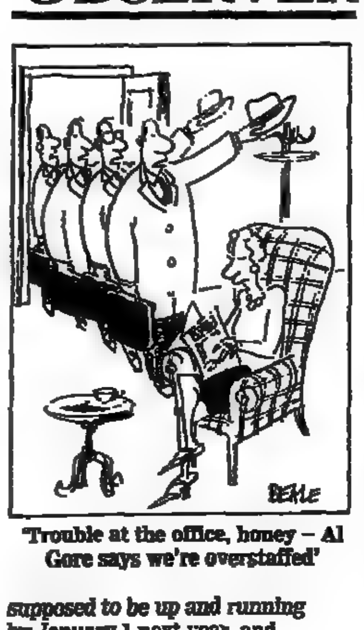
Mates on board

■ The last time Observer spoke to Lord Kingsdown, just before he retired as governor of the Bank of England in June, he said he would love to return to the private sector, though in his self-deprecating way he said he did not have a clue whether any big companies would wish to have him as a non-executive director.

Yesterday the former Robin Leigh-Pemberton, chairman of NatWest till becoming governor in 1983, landed a directorship at Glaxo, the pharmaceutical company. There he will join Lord Howe, the former Geoffrey Howe, who has not played an insignificant role in Lord Kingsdown's past career. For it was Lord Howe who, as chancellor of the exchequer, offered Lord Kingsdown the governorship just before Christmas 1982.

Mainz and men

■ The awful truth is slowly starting to dawn in Germany that perhaps Frankfurt may not be a foregone conclusion for the site of the future European central bank. The bank's forerunner, the European Monetary Institute, is



'Trouble at the office, honey – Al Gore says we're overstaffed'

supposed to be up and running by January 1 next year, and still no one can agree where it should be.

It is not that anyone gives credence to British micawberish optimism that London still somehow has a chance of hosting the institution itself. It is merely that the British resistance to Frankfurt, as the rival financial centre to London, appears to have gained support in Paris.

Step foward the good citizens of Mainz. Barely a stone's throw further from Frankfurt airport than the German Bundesbank itself, just across the river Rhine, Mainz believes it can offer almost all the advantages of its neighbour, without the disadvantage of the name. It can even offer a central bank building with vacant possession: the former headquarters of the state central bank of the Rhineland-Palatinate, now amalgamated with that of neighbouring Saarland.

It has high-level support in Paris, according to French officials in Bonn for the recent visit of Edouard Balladur. After all, Mayence is more than a little French; Napoleon made it his military headquarters for one campaign, and more recently, it was in the French occupation zone of Germany after the second world war.

Yet the British remain hostile. For them, Mainz is far too close to Frankfurt for comfort. "You can almost see the top of the Bundesbank from Mainz cathedral," one Whitehall official remarked grimly yesterday.

Secret scoop

■ Adam Mynott, a BBC radio reporter, fell on his feet in a big way yesterday when he telephoned the Downing Street press office and found himself listening to a conversation between John Major and Kenneth Clarke.

Major said later that the few seconds of conversation overheard by Mynott involved no security breaches, although Downing Street has started an inquiry. Mynott was saying nothing about what he heard, but watch out for budget scoops.

Brian who?

■ Canada's most famous jutting jaw and baritone voice were conspicuous by their absence yesterday. As politicians launched their campaigns for the October 25 general election, not a squeak came from Brian Mulroney, who stepped down two months ago as the most unpopular PM in recent Canadian history. He signed on last month as a senior partner at Ogilvy Renault, a law firm. His job is to broaden its international links, but no one would be surprised if Mulroney doesn't try to forge a few himself. He was considered a few years ago as a candidate for UN secretary-general, and would probably be interested if a similar job came up.

But for all his famed negotiating skill, Mulroney has a black mark against his name on the international stage. He has been widely criticised for one of his final acts as prime minister, which was to recall Don McCutchan, Canada's representative at the European Bank for Reconstruction and Development. McCutchan was the most consistent critic of the EBRD's high-spending ways. Not surprisingly, Mr McCutchan has landed a less glamorous job than Mulroney. He started yesterday with Ronald Chisholm, a Toronto food importer and exporter.

FINANCIAL TIMES
Thursday September 9 1993

EC commissioner says jobs crisis will not be solved by driving down pay

Flynn warning on low wages

By David Gardner in Brussels

A SOLUTION to the European Community's jobs crisis cannot be obtained at the price of dismantling EC social provisions or driving down wages, Mr Padraig Flynn, EC social affairs and employment commissioner, said yesterday.

As opinion among his Commission colleagues and the 12 member states is leaning in favour of labour market deregulation and reducing labour costs, Mr Flynn insisted that focusing too exclusively on wage costs was a blind alley.

"The [EC] social dimension has to be kept on board," the commissioner told journalists. "We're not talking about dismantling workers' rights."

Mr Flynn said the Commission's consultative document on EC competitiveness, growth and employment – ordered by June's Copenhagen summit for the December summit of EC leaders in Brussels – might recommend that specific countries alter labour market and taxation policies.

These are areas in which the EC has very limited jurisdiction, and the step would be more controversial given the new Community orthodoxy of subsidiarity, limiting EC action to areas where national or regional government cannot act as effectively.

Mr Flynn underlined that there was as yet no consensus on the content or form of the consultative document inside the Commission. But he said that "with the crisis deepening, and the credibility of the Community on the line, I think we have to go that step further."

On wage and non-wage costs, the Irish commissioner insisted that the real issue was productivity and unit labour costs, singling out the UK, which he described as the most deregulated labour market in the EC.

"Half the population [in the UK] now lives on one quarter of national income," he said. "Ten years ago the same number lived on a third of national income; and they've still got 3m unemployed."

Mr Flynn made the comparison with Belgium, pointing out that British wages were 30 per cent below Belgian wages, but that the UK "has exactly 70 per cent of Belgium's productivity".

The thrust of Mr Flynn's department's analysis remains that solutions must be found through making working time more flexible by upgrading skills through education and training. Part of the burden of non-wage costs, like social security, could be shifted from employment to other areas, for example through eco-taxes on scarce resources.

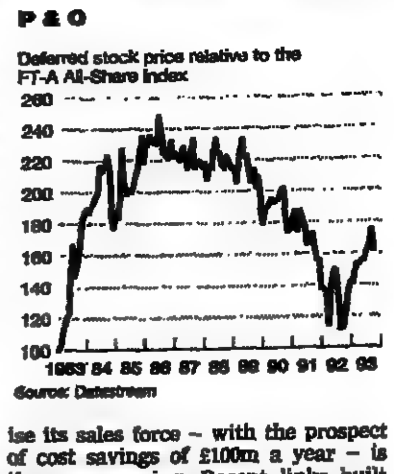
● Unemployment in the EC dipped to 10.6 per cent in July from a revised 10.7 per cent in June, but the fall is not a sign of economic recovery, the EC's statistical office said yesterday, Reuter reports from Brussels.

THE LEX COLUMN

Heavy weather at P&O

Like many UK companies, P&O could do with a decent dose of inflation. Not only would this swell the value of its £4bn asset base and shrink the relative burden of its £1.7bn of debt. It would also enable P&O to push through much-needed price rises in its housebuilding and shipping arms. As it is, although P&O is seeing a pick-up of activity in many areas, it is experiencing little improvement in margins. This joyless recovery has left it with creaking timbers as an 11 per cent decline in net pre-tax profits illustrates. The 7 per cent fall in the company's stock price reflects renewed doubts about P&O's ability to sustain its hefty dividend.

FT-SE Index: 3035.4 (-3.2)



P&O's enhanced scrip dividend temporarily eases the pressure since it effectively works as a minor rights issue. It saves £33m of tax from disappearing into the Chancellor's pocket, and preserves £163m of cash. But the scrip dividend will only pile up future financial worries for P&O. If fully taken up, it will expand P&O's equity by about 6 per cent. That will prove expensive to finance given the stock's yield of 6.5 per cent.

More robust economic recovery, if not inflation, could yet save P&O's blushes. But it will take P&O several years to generate the profits needed to rebuild cover sufficiently to contemplate any dividend increase. The added longer term worry is that P&O has recently been selling the ballast that enabled it to keep an even keel during the downturn. The stable earnings contributions from companies such as Sutcliffe can no longer be relied upon in future.

Prudential

It is a measure of the stock market's distrust of the life insurance sector that yesterday's 10 per cent increase in Prudential's interim dividend barely drew a response. While the immediate prospects for dividend growth turn on cash profits from old business now maturing, the government's demand for full disclosure of commissions threatens to undermine new business prospects. Until the impact of reform is clear, that uncertainty outweighs the promise of a rising dividend.

Still, Prudential looks better equipped than most to deal with both disclosure and increased competition from banks and building societies. Disclosure should favour companies with low costs and efficient distribution. The Pru's continuing drive to reorganise its sales force – with the prospect of cost savings of £100m a year – is thus encouraging. Recent links built with independent financial advisers through sales of the Prudence Bond contribute to a useful diversity of distribution.

Prudential also has sufficient scale to look elsewhere if its traditional market remains clouded. The prospects in Asia are exciting, but only for the long term. In the US, Jackson National's annuity products are less attractive in an era of low interest rates, so diversification into other areas makes sense. There is equally a chance that consolidation in UK life insurance will bring opportunities to buy market share. While the high level of gearing remains an obstacle, Mr Mick Newmarch has built sufficient support among investors not to let it pen him in.

Unilever

The acquisition of a $500m-turnover US company, the biggest in its field, would rank as a material transaction in most people's books. But for Unilever, the agreement to buy Kraft General Foods' ice cream business counts as little more than a handy bolt-on acquisition. Given the consideration represents less than 5 per cent of Unilever's assets, it is not even obliged to disclose the purchase price.

Unilever has long desired to bolster its US foods interests. Adding KGF to its existing US ice cream business will make Unilever market leader in a fragmented field and will doubtless provide opportunities for distribution and marketing synergies. Unilever may have its work cut out reversing KGF's recent weak trading run. But Unilever seems unlikely to have paid over the odds. It can afford to wait.

Philip Morris's decision to sell out of ice cream is indicative of the trend among food manufacturers to narrow their focus on fewer markets in which they have a dominant position. Unilever has already gone a long way to winnowing out its brand portfolio. But in Europe, Nestlé and BSN have scarcely begun the process. The difficulties of managing weaker brands are escalating by the day as retailer power grows stronger. Asset swaps among the bigger operators may become an increasingly frequent feature of the food scene.

UK indices

The FT-SE Actuaries UK indices committee is grappling with a slippery subject when it tries to define a UK company. Thus far, the pragmatic yardstick that companies prepared to pay UK tax are UK companies has held up reasonably well. But the proposed structure for New Rothmans and Vendôme has shown up the inadequacies of the definition. The deal is pretty clearly designed to minimise advance corporation tax problems by creating parallel UK and overseas companies which are permanently stapled together, but which also allow shareholders to select a UK or overseas dividend. Other UK companies with ACT headaches might in future be tempted to follow similar paths.

Yet this problem is primarily a function of the difficulties of advance corporation tax, rather than the degree of 'Britishness' of the company. Other hard cases such as Eurotunnel remain eligible despite the vagueness which surrounds the status of dividend payments the company hopes, one day, to make. Nor, apparently, will those who make use of the government's proposed foreign income dividends be excluded from UK indices. The issue of partly split dividends where one element is a compulsory UK taxed payment remains mercifully vague.

Taxation as a means of separating sheep from goats has thus probably had its day. A wider look at the issue is needed, and a useful starting point might be consideration of what investors want an index to tell them. Exposure to a local economy and corporate governance are perhaps key issues, though given the high level of overseas earnings in FT-SE 100 companies, the difficulty of designing a genuinely UK index is clearly acute.

Piëch supports López but speaks of enemies all round

Continued from Page 1

"And if your nearest environment turns against you, you really don't feel very good".

Mr Habbel has been re-elected at the insistence of the workers' representatives on the Audi supervisory board, despite a deepening crisis in the company. "I had been running the company for many years . . . I did his job," Mr Piëch recalls, with no apparent sense of paradox.

"I said I would stay one more year . . . But for the next six months I did only my job in research and development, and left everything else to him."

The crisis deepened. Workers' officials overcame their fear of his rigorous style and fears that he would shift production abroad. "They came to me and said they had made a mistake and that they would correct it." At the end of his ultimatum year, Mr Piëch got the job. "It was at that time that I learnt I needed allies.

"In those days, when my wife went shopping nobody wanted to know her. Now when she goes out in the village where we live, surrounded by many Volkswagen people, they come to her and say, 'Stay, fight, you will win, we need you'.

"It's a new experience for me, but we have a very strong relationship now between labour and management," he says. He sees his allies in the group's 115,000-strong workforce.

Even though their ranks are being thinned by his and Mr López's costs drive, he says, they understand better than some more senior people that things have to change.

A curious picture emerges of a D-Mark-billionaire Austrian, content at last in an isolated patch of Lower Saxony, in alliance with hard-headed trade unionists in a grassroots Social Democrat stronghold. From there, he thumbs his nose at conventional German business wisdom while his motor industry associates look on with mounting alarm as he goes his own radical way.

"There are some who believe that the worst thing of all would be if he were to succeed," says a company insider. These, the theory goes, include Chancellor Helmut Kohl's Christian Democrat party and its sister-grouping Christian Social Union, supported by mainstream business, playing a double game.

This alliance would like to be rid of Mr Piëch and Mr López. On the one side the aim is to discredit the Lower Saxony government and the labour-dominated VW supervisory board. One result, it is imagined within VW, would be to improve the conservatives' chances of winning next year's federal and regional elections.

The Bonn government lost its say in VW affairs when it sold its last holding and withdrew its two representatives from the supervisory board. Another result would be to demonstrate that Germany's traditional "softly, softly" approach to reform is, after all, best.

Whether Mr Piëch can believe in such a convoluted conspiracy theory or not, he has repeatedly emphasised that there is no going back to the company's old ways.

As Mr Piëch's confident proclamations of a group turn-round this year fade into muttered assurances of a profit from his power base at the German parent, it becomes almost daily more apparent that a vital short-term aim is to keep the faith with his key shareholders and his suffering workforce.

If that means sacrifices elsewhere, then Mr Piëch is not afraid to make them: ruthlessly if need be.

There have already been signs enough of wavering on the supervisory board, prompted from without as well as within. Mr Piëch has a saying, which he has refined since his Audi days, and which has been heard in Wolfsburg recently: "Either I do it my way, or I go."

The chances appear to be increasing that if he were to use it now in earnest, he might have to accept defeat, and leave Volkswagen to the still-lively corpses in the cellar.

SNCF takes steps to get back on track

By John Ridding in Paris

FRANCE'S national railway yesterday announced a series of measures to draw passengers back into its carriages following an unfortunate brush with high technology.

Mr Jacques Fournier, president of the SNCF rail company, sought to restore its image as one of Europe's most efficient services following the introduction of a computer booking system that created chaos and had prospective travellers waiting up to 40 minutes for tickets that were often wrongly priced.

The over-complex system, called Socrates, was introduced at the beginning of this year at a cost of about FFr1.3bn ($220m). Plagued by software problems, it tarnished the image of France's proud railways, contributing, along with recession, to a 6 per cent cent fall in passengers in the first half of the year.

Mr Fournier assured passengers that technical problems had now been ironed out.

The system had succeeded in making 18m reservations in June, July and August and could make 420,000 reservations daily, compared with 201,930 a day under the old system.

But just in case of hiccups, SNCF will allow passengers to board a train with a simple "ticket of access" and pay the fare in their compartments. This should avoid the biggest problem arising from Socrates' teething troubles: frustrated passengers who gave up waiting for tickets and boarded trains without them were liable to be fined.

Special offers are to be introduced next month in which young passengers, families and the over-60s will be offered 50 per cent discounts on cards which give reduced rail fares. The validity of reduced-fare cards issued so far this year will be extended by three months.

Drawing travellers back on to the trains is not just necessary for the image of SNCF. The company's losses so far this year amount to about FFr8bn.

GM calls for full co-operation

Continued from Page 1

documents and that they had destroyed them [in the week beginning March 22] on VW property so that they would not come into VW hands, even though it was [individuals who would later become] VW employees that took these documents, and, we believe actually used them," said Mr Hughes. Why had the destruction of GM documents taken place, he asked, "unless they had something to hide". VW has consistently denied it used the documents.

"Even today we have not received an apology nor a listing of the documents destroyed. It is just as if, OK, it happened, but nothing more."

Mr Hughes said GM's US lawyers had written to Mr Piëch on March 23, long before the public prosecutors' investigation began, to ask him to list and return any GM documents and any copies that came into VW possession.

Mr Hughes questioned why the VW supervisory board had not yet taken action.

"By virtue of their inaction they are making a Lopez case into a VW case. But OK, we are all grown-ups. We will support the public prosecutors to the end, and it will be a tragic end.

"We were deeply wronged and badly damaged. Someone must pay for that in the courts and in the bank."

FT WORLD WEATHER

Europe today

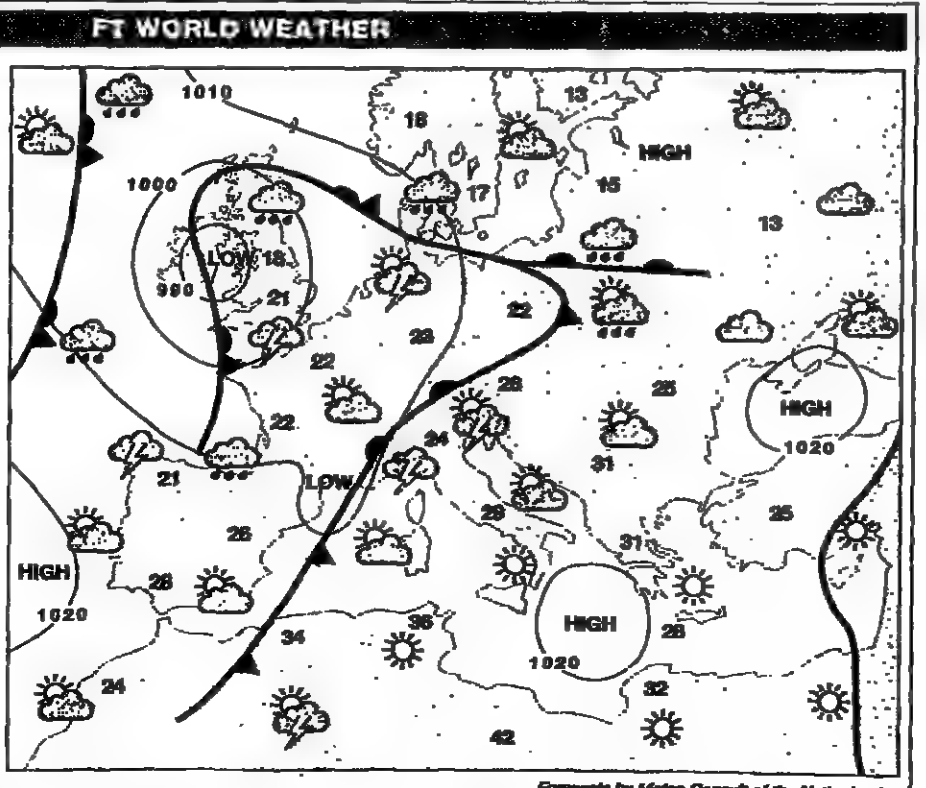
Cloud and rain will extend from the Alps through Denmark towards the northern UK, with north-westerly winds of near gale force on the Irish coast. Thunderstorms and rain are expected in the southern Alps as a cold front moves east. In the cool air, thunder showers will develop across the north-western Spanish highlands and northern Portugal. South-east Europe will be sunny and dry conditions with temperatures above 30 C.

The Low Countries and France will remain unsettled. Cool air moving into Scandinavia will make widespread frost likely during the night and early morning. High pressure over the region will suppress showers.

Five-day forecast

Rain clouds will persist over the UK with only short dry intervals. As depressions move north-east, cool air will reach northern France and the Benelux giving rise to unsettled conditions.

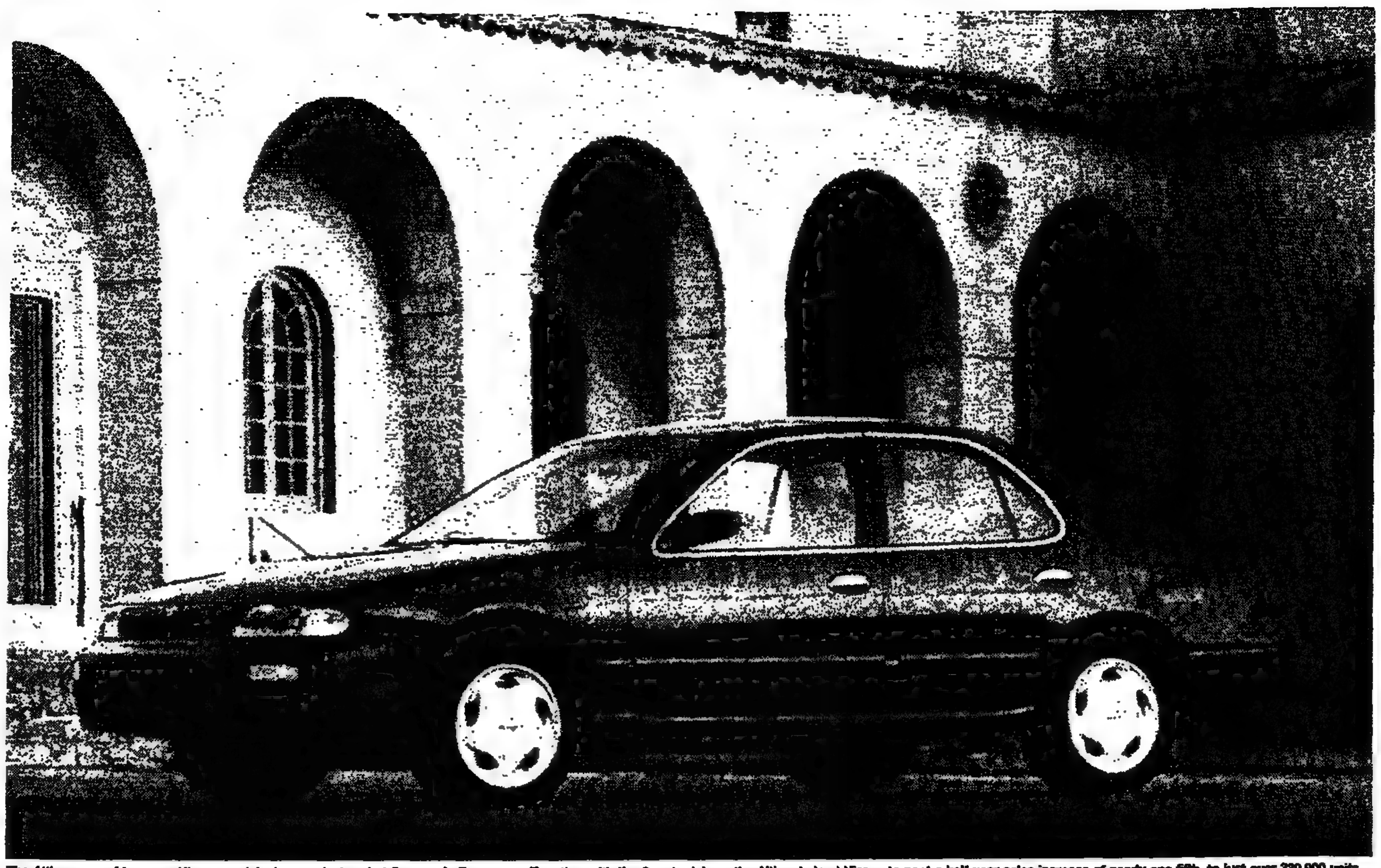
In southern Europe, thunder showers will shift towards the Balkans. Elsewhere, it will be sunny and warm. Scandinavia will stay settled and dry in most places with more widespread frost at night.



TODAY'S TEMPERATURES

Forecasts by Meteo Consult of the Netherlands

	Maximum		Belfast	rain	17	Cardiff	thund	17	Frankfurt	rain	24	Malta	sun	33	Rio	thund	25
	Celsius		Belgrade	sun	31	Chicago	rain	24	Geneva	thund	22	Manchester	shower	20	Riyadh	sun	40
Abu Dhabi	sun	36	Berlin	drzzl	22	Cologne	shower	24	Gibraltar	fair	28	Manila	thund	31	Rome	fair	29
Accra	thund	29	Bermuda	thund	31	D' Salaam	cloudy	31	Glasgow	rain	18	Melbourne	shower	13	S. Frsco	fair	26
Algiers	thund	34	Bogota	thund	22	Dakar	fair	31	Hamburg	cloudy	21	Mexico City	thund	21	Seoul	fair	29
Amsterdam	shower	22	Bombay	shower	31	Dallas	thund	33	Helsinki	drzzl	12	Miami	thund	33	Singapore	thund	30
Athens	sun	30	Brussels	shower	24	Delhi	shower	33	Hong Kong	cloudy	31	Milan	thund	24	Stockholm	fair	17
B. Aires	fair	19	Budapest	fair	27	Dubai	sun	37	Honolulu	sun	32	Montreal	rain	19	Strasbourg	thund	23
B.ham	thund	19	C.hagen	rain	18	Dublin	rain	17	Istanbul	sun	25	Moscow	cloudy	12	Sydney	drzzl	19
Bangkok	thund	32	Cairo	sun	32	Dubrovnik	sun	28	Jersey	shower	18	Munich	shower	24	Tangier	cloudy	24
Barcelona	fair	27	Cape Town	cloudy	19	Edinburgh	rain	18	Karachi	fair	32	Nairobi	cloudy	22	Tel Aviv	sun	30
Beijing	thund	26	Caracas	thund	27	Faro	fair	25	Kuwait	sun	41	Naples	sun	31	Tokyo	thund	23
									L. Angeles	sun	27	Nassau	thund	32	Toronto	rain	19
									Las Palmas	fair	26	New York	cloudy	25	Tunis	fair	37
									Lima	cloudy	21	Nice	thund	25	Vancouver	fair	23
									Lisbon	cloudy	23	Nicosia	sun	30	Venice	thund	24
									London	cloudy	21	Oslo	fair	18	Vienna	fair	26
									Lux.bourg	thund	20	Paris	shower	23	Warsaw	cloudy	19
									Lyon	shower	24	Perth	sun	21	Washington	cloudy	27
									Madeira	shower	24	Prague	thund	23	Wellington	cloudy	11
									Madrid	sun	25	Rangoon	cloudy	29	Winnipeg	shower	15
									Majorca	cloudy	31	Reykjavik	rain	11	Zurich	shower	22



The Altima, one of two new Nissan models, is manufactured at Smyrna, in Tennessee. Together with the Quest minivan, the Altima helped Nissan to post a half-year sales increase of nearly one fifth, to just over 330,900 units

■ THE JAPANESE IN THE US

Slide becomes more pronounced

Nissan and tiny Isuzu manage to steer clear of the downward trend – and gain market share

EVENTS of the past year demonstrate that Japan's carmakers are not invincible in the US. Many observers, following their performance in America during the previous two decades, were beginning to think they were.

Japanese car brands – imports as well as those made locally – finished last year with an American market share of 30.1 per cent. Their slice of the total vehicle market, which includes pick-up trucks, off-roaders and people-carriers, was 24.3 per cent.

Both kinds of market share were down, marginally, from the previous year's, but the slide became more pronounced during the first half of this year, when Japanese nameplates accounted for 27.6 per cent of the car market – 21.9 per cent overall. It was their worst performance in five years.

Japan's only good news came from Nissan and tiny Isuzu: both gained market share against the trend. Even Honda, America's darling during much of the 1980s, faltered, as the Accord slipped from number one to fourth in the car popularity stakes.

PART II
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Japan
Asia
North America
Trends

Not that European brands fared any better. Combined sales dropped more than 15 per cent in the first half of the year, and now account for little more than 2 per cent of the total US vehicle market. In other words, Japan outsells Europe in the US in a ratio of almost 10:1.

Overall, the drop in Japanese car sales was much too large to *be a statistical quirk. While* Detroit's Big Three, General Motors, Ford and Chrysler, between *them found* more than half a million more new customers in the first half-year compared with one year earlier, Japanese companies lost almost 15,000 sales.

This is a particularly challenging period for Japanese car makers. The poor returns in the US come against a background of sluggish sales in Japan itself and a dramatic fall in demand in Europe. With the exception of sales to Latin America and south-east Asia, Japanese vehicle exports everywhere are stalled.

At the same time, Japanese companies are committed to a costly build-up of transplant factories in North America and Europe. In the wake of the yen's apparently ceaseless appreciation, they may prove a long term salvation to some of the US's problems, by reducing its dependence on exports.

The yen is hovering at about 100 to the dollar, compared with about 125 one year ago. While exporters managed to cope with adjusting from 250 yen to the dollar of the mid-1980s, the latest exchange rates are proving too much, even for a successful and wealthy company such as Toyota.

It is easy to see what that degree of swing will do to prices of direct imports from Japan. But it also affects vehicles made by Japanese companies in the US. Many of their components are still imported.

The rising yen will be a further incentive for Japanese companies to honour a commitment to raise the local component content of their American-made vehicles from about 55 per cent to 70 per cent.

Japanese vehicle prices in the US are beginning to reflect the yen's strength, although the fight for customers in the market place means that actual purchase prices are a good deal closer to those of American products than the list prices suggest.

Consumer belief that Japanese models are much more expensive than those of GM, Ford and Chrysler, contributed to the resurgence in Big Three sales. So did the distinct shift in public attitude about buying US products. Now that many Americans are hostile towards Japanese trade policies, it is almost chic to buy US cars these days.

On the other hand, the US come-back is masked by the large proportion of fleet sales, perhaps more than a quarter of the total. This traditionally low – or zero – profit business is almost the Big Three's exclusive preserve.

Japanese companies say their largely retail business has held up well. They also point to the slower economies along the west coast, where the Japanese have historically been strongest. Those regions are suffering in the wake of recent defence cuts.

Nevertheless, the shift to US brands is understandable because the country's car companies responded positively to Japanese competitive pressure in the 1980s. Detroit made quantifiable improvements in vehicle quality in recent years, described in surveys by the independent JD Power market research group. While Japanese brands still come top of Power's annual initial quality and customer satisfaction surveys, US models are coming much closer. "Quality is not an issue any more," says a Power spokesman.

Nissan's counter-trend improvement in sales stemmed largely from the addition of two new models, both of which are made in the US. Sales of other Nissans reflected the more general Japanese trend. The new Nissans are the Altima, a saloon manufactured at Smyrna, in Tennessee, and the Quest minivan, or people-carrier. Made by Ford for Nissan, Quest was designed in Nissan's California studios. Between them, Altima and Quest helped Nissan to a half-year sales increase of nearly one fifth, to just over 330,000.

Nissan and Infiniti remain well behind Toyota and Lexus, which ended the first six months with a slightly reduced market share

Given the general malaise among Japanese producers, that is impressive, but it only moves Nissan back towards the position it enjoyed during the mid-1980s. Nissan, together with its upmarket Infiniti marque, remains well behind Toyota and Lexus, which ended the first six months on 509,000 sales and a slightly reduced market share.

Nissan was on fairly level pegging with Honda and Acura, whose 328,000 sales were achieved in the absence of any offerings in the increasingly important market segments for minivans, pick-ups and off-roaders. Technically, such vehicles are trucks, although they are usually used like passenger cars. They now account for three out of every five vehicle sales in the US.

The trend continued this year. While traditional passenger car sales eased up 2.4 per cent, truck demand soared up 17.4 per cent.

Richard Feast

■ FRANCE

Domestic registrations take a fall

Peugeot-Citroën and Renault have been struggling to respond to the downturn

FRENCH car manufacturers cannot remember when times were so hard.

Recession at home, falling demand in most of their principal European markets and the increased price competitiveness of many of their international rivals have left Peugeot-Citroën and Renault struggling to respond to the downturn.

The domestic market, burdened by a sluggish economy and depressed consumer confidence, contracted by 17 per cent in the first seven months of the year, compared to the same period in 1992. Motor industry analysts see little hope for rapid improvement.

"There isn't any sign of an *upturn for the rest of the* year," says Mr Bob Barber at James Capel, who forecasts a full year decline in the French car market of about 15 per cent.

The downturn has taken its toll on the two principal carmakers, particularly in their home market. Registrations of Peugeot-Citroën cars in France fell by almost 19 per cent – to 300,500 vehicles – in the first seven months of 1993. Renault did better, but still suffered a fall of 12.7 per cent – to 314,000 vehicles, according to figures from the Committee of French Automobile Constructors.

Profits will naturally be affected. *Renault, the* world's most profitable car manufacturer in 1992 (in terms of the ratio of net profits to sales), saw pre-tax profits plunge by by almost 90 per cent – from FFr5.44bn TO FFr730m in the first half of the year. Peugeot-Citroën, which saw profits fall from FFr5.53bn to FFr3.37bn in 1992, is expected by most car industry analysts to fall into loss this year.

Amid the gloom, however, there are some signs of encouragement.

Improved sales in the UK and increased market share in Germany allowed Peugeot-Citroën to report first half sales of FFr73.05bn, a fall of 11.4 per cent over the first half of 1992.

This decline masked a relatively strong second quarter, in which sales fell by 6.8 per cent.

"The results were better than expected," says one French car industry analyst, adding that the introduction of new models such as the Citroën Xantia and the Peugeot 306 would help sales, particularly with the introduction – *in June* – of diesel models.

For Renault, there is consolation in the fact that the company is winning market share from its domestic rival and from international manufacturers.

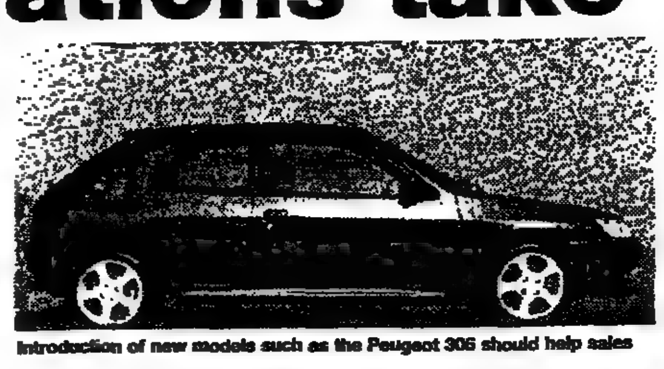
"Renault has continued to strengthen its image at the expense of Peugeot," says one car industry executive in Paris, citing the Safrane, the high-end model which has enjoyed a successful introduction.

For both car manufacturers there is also the potential benefit of a weaker franc.

Peugeot-Citroën and Renault have both lost competitiveness compared with manufacturers in Spain, the UK and Italy, which have all seen their currencies depreciate significantly over the past nine months.

The weakening of the European exchange rate mechanism at the beginning of last month, however, has brought a depreciation of the franc of about 3 per cent. It has also raised the prospect of reduced financial costs through lower interest rates.

But the prospect of continued depressed demand raises a series of difficult decisions for the French carmakers. In particular they are faced with the need to reduce production to adapt to the adverse conditions. Peugeot-Citroën has already announced reduced working days at its factories in Mulhouse and Sochaux in eastern France and is reducing its workforce by almost 3,000 this year. *It has also announced* that it is stopping production of its 405 model in its UK factory.


Introduction of new models such as the Peugeot 306 should help sales

Car industry analysts in Paris say that, for *Renault, the* downturn in the market increases pressure to finalise its merger with Volvo, the Swedish car *manufacturer*, so as to achieve production economies.

Mr Gerard Longuet, the French industry minister, is pressing Renault to complete the alliance with Volvo to prepare the French carmaker for privatisation.

A final deal, which is thought to be imminent, will give the merged company 12 per cent of the European car market and more than 20 per cent of the European truck market.

It will allow the merged company *to achieve* economies of scale and reduced production costs and enable joint marketing and research operations.

If the French government has sought to galvanise the two companies into a speedier marriage, it has also sought to protect the French car market from what it regards as unwelcome suitors.

Both Mr Longuet and Mr Alain Lamassoure, the minister for European affairs, have *appealed to* the European Commission to re-open negotiations with Japanese car manufacturers concerning the level of their exports to the European market.

The French government argues that the worse than expected decline in the European market requires a further cut in Japanese exports. The Japanese Ministry of Trade and Industry had previously agreed to a *reduction* of about 9.4 per cent in exports to the EC, based on a fall in European car sales of 6.5 per cent.

The two sides are expected to meet again in September to discuss the issue. But the mood of the French car makers is unlikely to have been improved by then.

John Ridding


A new Ibiza model will be manufactured at Seat's plant near Barcelona

■ SPAIN

New mood of austerity

Everywhere, companies are putting production lines on short time

THE multinationals manufacturing cars in Spain tell a common tale of losses and, also, of big investments geared to put their operations back into the black.

The two themes of the tale run in parallel. The losses are as much a product of depressed markets as of continuing capital investment programmes. The investments firmly underline the shared belief in Spain's future as one of Europe's leading car producing centres.

Nissan Motor Iberica, which is 66 per cent owned by the Japanese car manufacturer, posted losses of Pta14.3bn last year. Profits at Ford fell by 47.8 per cent to Pta10.7bn and Seat, Volkswagen's 100 per cent-owned Spanish subsidiary went into the red for the first time in four years, registering 1992 losses of Pta12.7bn.

By the first quarter of this year, Nissan was preparing the markets for even greater losses. At the end of March the Spanish company's losses topped Pta11bn, against Pta1.7bn *in the first three* months of last year, and Nissan, the parent company, announced it would would wholly subscribe an immediate capital increase of Pta5bn, at par, for the Barcelona-based producer.

Nissan Motor Iberica's board approved further capital increases up to a maximum of Pta27.8bn and the parent company said it was studying a further Pta5bn capital injection this year and an equivalent investment in 1994.

The pattern of losses plus greater investment was evident elsewhere in the domestic car sector. Seat, which expects to post further losses this *year*, has invested a total of Pta244.5bn in a new plant, also near Barcelona, which was inaugurated last spring. The plant, possibly the last great *car production centre to be* built in western Europe, is destined to manufacture a new Ibiza model.

Ford had earlier chosen Spain as the production centre for its "Sigma" motors. This involves investment in the region of Pta70bn and the addition of 800 highly qualified employees to the US company's 12,000 labour force at its plant near Valencia. The "Sigma" motors are based on a four-cylinder, 16-valve prototype and consist of a full range of models up to 1,400cc.

Such investments amount to a courageous long-term bet. Already at the begining of this year domestic industry experts were forecasting a fall of *between 5 and 7 per cent for* 1993 in the internal car market.

The final figures could be a lot worse than the most pessimistic estimates in that initial forecast. Recession continues to make big inroads on the Spanish economy and the government is now saying that 1993 GDP will show a negative growth of 0.5 per cent. Independent economists say the GDP is likely to closer to minus 1 per cent.

The Spain-based manufacturers are even more concerned about the economic stagnation elsewhere in Europe. This is because Europe is the domestic industry's main client and has in the past absorbed as much as 70 per cent the sector's output. To a degree, the falling demand in Europe will be compensated by the shrinking value of the peseta which has depreciated by more than 20 per cent ion the past 12 months against most leading currencies.

The investments however, in the main, date back to the buoyant late 1980s period and *it would prove even more* costly to stop them short at this stage.

Just as Seat has its hopes fixed on the models that will roll out of its new plant early next year and as Ford linked up a good measure of its future in Spain to the "Sigma" motor, so Nissan Motor Iberica has set great store by the launch this year of a four-wheel vehicle called Terrena II and of a people carrier vehicle named Serena.

Both the Japanese subsidiary's products are aimed at fast-growing niche markets and the Terrena II will have the added boost of a joint marketing effort that will involve Ford's pan-European distribution networks.

Car manufacturers in Spain, as elsewhere, are nevertheless taking no chances. Across the board, the companies are placing production lines on short time to cut down on stocks, reducing their labour force and negotiating hard to force unions to moderate wage increases.

Indicative of the new mood of austerity was Seat's decision this year to freeze executive salaries until further notice.

Tom Burns

■ SWEDEN

Tough battle for recovery

Volvo and Saab depend on the alliances they have forged

TO judge by the dismal performance recently of Volvo and Saab, Sweden is not a good place to make cars.

Operating losses in Volvo's car division piled up to SKr4.45bn in the years 1990, *1991 and 1992. In the same period*, overall losses at Saab totalled SKr6.18bn. Both companies have continued in the red in 1993, suffering heavy declines in the numbers of vehicles sold in the first half of the year.

This has taken place against a background of a catastrophic decline in their home market. New car sales in Sweden, in the grip of a fierce recession for the past three years, have plummeted from a peak of 340,000 in 1988 to an expected figure this year of less than 120,000.

The survival of these two potent symbols of Swedish manufacturing and engineering prowess has come to depend on the alliances they have forged with foreign volume car producers – with France's Renault, in the case of Volvo, and with America's General Motors, which is a 50 per cent co-owner of Saab along with Sweden's Saab-Scania group.

Already, both companies have undergone profound and expensive restructuring which has cost the jobs of thousands of their Swedish workers. Now, with new models launched, Volvo and Saab are fighting to prove that Swedish carmakers can have a profitable future – albeit under the *wing of foreign partners*.

With the bulk of cars produced by both companies sold overseas, the collapse of the Swedish market is not as damaging as it might seem at first sight. But it makes the task of recovery even harder, particularly given the double-digit decline in car sales in Europe this year.

The strategy common to both the Renault-Volvo and the GM-Saab links is that both the Swedish companies will continue to produce cars that retain a clear Volvo and Saab identity. *Their individual look* – the body styling – and their Swedish qualities of safety, performance and "greenness" will be *carefully preserved*. Meanwhile, under the skin, there will be the maximum use of common components, design and production systems, to cut costs.

However, the evolution of the two alliances has been very different. In the case of Saab, the smaller of the two rivals, GM bought in in 1989, took over management control and has since pumped in SKr4bn in new capital, matched by a similar amount from Saab-Scania, which is fully owned by Sweden's powerful Wallenberg family.

Saab now operates as an arm of GM, producing its premium 900 and 9000 models to *compete principally with* BMW, Audi and Mercedes in a market segment GM and its European operation Opel otherwise do not directly contest.

For Volvo, the link with Renault has been more complex. It began in September 1990 with an exchange of minority stakes at a time when Volvo had been waxing strong and Renault's finances were weak. Since then, however, this position has reversed to the point that Volvo is set to be the junior partner when the link matures into a full merger, as is anticipated shortly.

Volvo shareholders have expressed some confusion over what Mr Pehr Gyllenhammar, the chairman and long-time chief of Volvo, intends the *future shape of the company* should be. This confusion has been compounded by the deal Mr Gyllenhammar struck with *the Swedish government earlier* this year over Procordia, the drugs and food group jointly controlled by Volvo and the state.

Under the accord, Volvo will take over the food businesses of Procordia and retain up to a 35 per cent stake in the spun-off pharmaceuticals unit.

Many Swedish investors have questioned why a car, truck and marine engine manufacturer should want to diversify in this way.

The resolution of what had been a year-long wrangle with the government over Procordia cleared the way for further deepening of the Renault-Volvo relationship.

Already, Renault and Volvo have gone a long way towards integrating their car production. They make some 20 per cent of their annual purchases jointly to cut supply costs and say this could rise to 80 per cent. Renault supplies engines and gearboxes for the smaller Volvo 400 series made in the Netherlands. It will supply diesel engines for both companies, while Volvo's latest petrol engine will go into some Renault models.

In June, they set up a joint department to plan new car production and they plan a common platform for their *next generation of executive models*.

Both Volvo and Saab, in league with their foreign partners, have done much to improve their competitive position. They have been helped considerably by the strong devaluation late last year of the Swedish krona. But in a falling market, with heavy overcapacity in world car making, they still face a tough battle for recovery.

Hugh Carnegy

■ CENTRAL AND EASTERN EUROPE

Main players happy

Fiat, Volkswagen-Audi and GM are the main contenders

SUBSTANTIAL foreign *investment in new or* modernised car plants is becoming a powerful stimulus to economic growth in central and eastern Europe. It is helping economies adapt to meet the real needs of consumers rather than the priorities of planners.

The build-up in production volumes from Fiat in Poland, Volkswagen-controlled Skoda Automobilova in the Czech republic and, on a lesser scale, General Motors and Suzuki in Hungary is helping to compensate for the decline in output *from the steel, heavy engineer*ing and arms industries which were the mainstays of the old economies.

As in the UK, where heavy inward investment by the big Japanese car companies is helping to reverse decades of industrial decline, central Europe is gaining export-orientated plants whose demand for components has spawned rapid collateral growth in components manufacture.

Central Europe is becoming both a significant player in the European car industry *per se* and a fast-growing source of car components as western components makers follow the leading car producers with low-cost, locally-produced components and trim.

In some cases, companies such as Ford, which have decided against building *assembly plants in the region*, have opted instead to lower the overall cost of assembling vehicles in their existing west European plants by sourcing components in this low cost region. Ford, for example, is sourcing many of its electrical components from a new $100m plant south of Budapest.

The rising production of components is steadily improv*ing the local content ratio of* the Fiat Cinquecento, Skoda Favorit and other models coming off the assembly lines – and so maximising the advantage of low wage rates and high skill levels.

Over time, rapid economic growth will erode the wage-cost advantage which is currently the main attraction for the European and US multinationals. But higher incomes will raise purchasing power and unleash the potential of what is still a largely untapped market of 65m people in central Europe alone.

Significantly, Poland, with 39m people, has become the first of the post-communist states to recover from the steep initial restructuring recession. One of the forces behind recovery was a 32 per cent rise in car output last year as produc*tion of the new Cinquecento*, mainly for export to Italy and other EC markets, soared from 5,500 in 1991 to 32,400.

This year, Cinquecento output is building up towards the 240,000 capacity planned for mid-decade, while a new Fiat family car will roll off the production lines within the next two or three years. Limited assembly of the of the GM Astra *model at the Warsaw FSO* plant will further boost output.

A 28 per cent rise in output from Skoda Automobilova over the first quarter of 1993 reflects a similar pattern in the Czech republic which is also poised to resume overall economic growth in the second half of this year.

Skoda Automobilova plans to double output to *about 440,000 vehicles as* Volkswagen seeks to repeat its success in revamping Seat in Spain and create a new generation of low-cost but well-engineered cars from its Czech plants.

In Hungary, output is also building up from the Magyar Suzuki plant at Esztergom, built on a former Soviet military base close to the Austrian border. But the first investment by Japanese industry in the region faces big problems. The recession and fierce competition in EC markets together with a stronger-than-expected Hungarian forint, cultural problems with a local labour force reluctant to adapt to a Japanese-style work regime, and the impact of a strong yen on its imported components have all conspired *to make life difficult for the* company.

General Motors has also found that the unexpectedly rapid liberalisation of Hungary's foreign trade regime changed the assumptions upon which it based its original DM400m decision to build both a small Astra assembly plant and an engine factory at Szentgottard in western Hungary. The original plan was to earn hard currency from engine exports to other GM plants, to pay for the foreign exchange costs of the imported kits for Astra assembly in Hungary for the domestic market.

Intense competition in the still depressed Hungarian domestic market means that General Motors is now having to export Astras from its Hungarian plant which contain expensive imported components and are built in uneconomically low volumes.

Despite the problems faced by earlier entrants, however, Hungary remains popular among foreign investors.

Fiat and Volkswagen-Audi have emerged as the main European players in central Europe, with the French industry reduced to small kit assembly operations in Poland and the traditional close links with the Romanian industry.

General Motors leads the American pack, seeing its scaled-down Astra assembly operation in Poland as a toehold in what is expected to be the fastest growing market in the region.

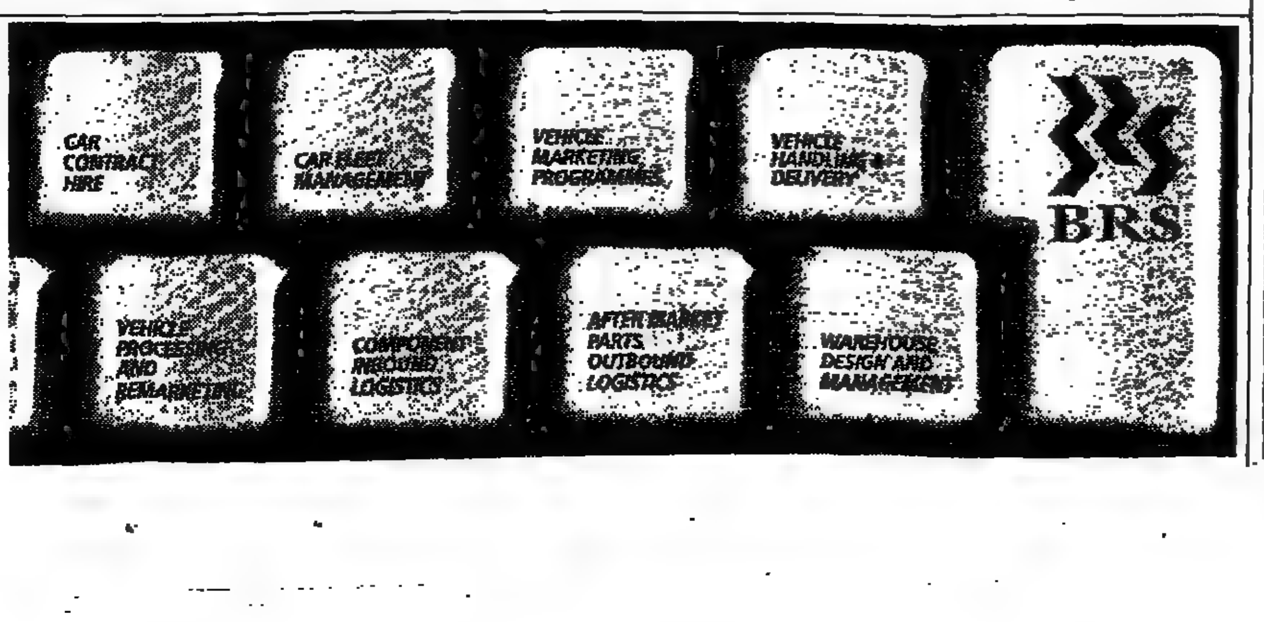
The main players seem happy with their strategic moves into central Europe and are cautiously reviewing prospects further east where the future of economic reform remains clouded by political factors and the enduring power of the old communist nomenklatura in the big state-owned plants.

Significantly, however, car production has held up surprisingly well in the former Soviet states.

Last year, while industrial output generally fell by more than 18 per cent in Russia, car production fell by only 6.6 per cent, according to a study by Planecon Europe and DRI-McGraw-Hill.

Exports also performed well, even though the various Lada models now coming off the production lines for export have to compete head-on for hard currency sales both in the west and in the former Comecon states.

Anthony Robinson



■ NORTH AMERICA: THE BIG THREE

Fighting comeback against old enemy

The American buying public recognises improved design and quality

AMERICA'S three biggest car companies are making a fighting come-back. They have regained more than 2 per cent of the US vehicle market from Japan, their "old enemy", this year, following 1992's small improvement over 1991.

While Japanese car makers are handicapped by the strengthening yen, there is increasing public recognition that the design and quality of General Motors, Ford and Chrysler products have improved considerably. The result is that sales for the Big Three at the expense of Japan are looking up – although none of the American makers thinks the job is complete.

"We're not where we'd like to be (on quality)," says Robert A. Lutz, Chrysler's president.

But his company is making the biggest impact in the showrooms, thanks to several well-received new model introductions which include the revised Voyager minivan (a trend-setter and class leader), Jeep Grand Cherokee and the LH range of saloons known as Dodge Intrepid, Eagle Vision and Chrysler Concorde. The Escort-sized Neon saloon will make its debut at this month's Frankfurt motor show, and will be followed shortly by the muscular Ram pick-up and medium-size JA saloons. And the outrageous, low-volume Viper sports car did wonders for Chrysler's rather dowdy image.

So far, the new vehicles have helped to shoot Chrysler from a market share of just over 12 per cent in 1991 to more than 15 per cent by the end of June this year. In a gradually improving market, this means that Chrysler sales in the first half of this year were up by more than a quarter compared with the same period last year.

It is no wonder that Chrysler is a Wall Street favourite once more

It is no wonder that Chrysler is a Wall Street favourite once more. Its financial results this year have been good – helped by disposals of a component company and by Chrysler's remaining stake in Mitsubishi Motors.

The more "global" companies, GM and Ford, are presently handicapped by their overseas operations, particularly in the wake of the unprecedented slump in western European car demand. Chrysler has benefited from a concentration of its business in North America. This is typical of the company's boom-or-bust history: the ups and downs in Chrysler's fortunes are much more marked than at Ford or GM, companies which are bigger and slower to change.

Ford recognised the Japanese challenge much earlier than either of its rivals. It began restructuring a decade ago, gradually improving its efficiency, quality and market share. The company – financially the strongest of the Big Three – is also on a roll.

Ford overtook GM's Chevrolet as the leading nameplate in the US some time ago. Five of America's 10 best-selling vehicles are Fords, including the top truck (F-series) and the top car (Taurus). Ford hopes that the North American versions of Mondeo, which will be known as Ford Contour and Mercury Mystique, will join the best-selling list when they go on sale next year.

Harold A. Poling
chairman of Ford

Robert J. Eaton
chief executive of Chrysler

Jack Smith
president of GM

In contrast to Ford, GM appeared to believe until recently that its great size rendered it impervious to changing conditions. But its steadily worsening market share, accompanied by a deterioration in its financial performance, prompted last year's shareholder revolt.

Like Chrysler in the mid-1980s and Ford in the early 1980s, GM is embarked on a thorough overhaul of its policies, processes and products – under Mr Jack Smith, GM president since last November.

For the first time in GM history, the chairman (now Mr John Smale) is not involved in the corporation's daily operations. Mr Smith is unlike all previous top executives at GM. A hands-on man who is credited with creating the corporation's successful European operations, he has moved his office from GM's palatial Detroit headquarters to the more modest technical centre in nearby Warren.

GM once built one out of every two cars bought by Americans. It now builds one in three, thanks to competition from Ford, Chrysler and Japanese carmakers, and clearly has more factories than it needs, especially in the wake of efficiency improvements. The adjustment will be a long and painful one: 23 plants are on the closure list.

Mr Smith vows that reform will not be side-tracked by issues such as the controversial defection to Volkswagen, earlier this year, of Mr Ignacio Lopez, GM's purchasing chief. Mr Lopez was in charge of North American automotive operations, the group's principle area of concern. This made a net loss of $95m in the first half of this year, although Mr Rick Wagoner, the chief financial officer, says it will break even before charges for the whole year – a notable improvement on the $11bn losses recorded during 1991-92.

It will mean continuing the cost-reduction work, begun by Mr Lopez, on bought-in components. Mr Wagoner says the group will have lopped $4bn – more than 10 per cent – from its North American supplier bill by the end of this year.

One real problem for GM at present is a lack of blockbuster new models that customers really want – for example, models such as the Chrysler LH series or Ford's Explorer four-wheel-drive. But the corporation has high hopes for next year's new Chevrolet Lumina, Buick Riviera and Oldsmobile Aurora.

GM designers say they have learned from recent history, when look-alike styling contributed to falling market share and in-house brands competed with each other rather than with their real rivals from Ford and Chrysler. The bright spot for GM is its Saturn division, which increased sales by 25 percent this year. But Saturn, which absorbed billions of dollars, is a comparatively cheap, low-volume model. As it can never earn the profit margins of larger cars and trucks, GM needs to repeat its results across many other models as well.

Longer term, the corporation is understood to be planning a full range of models with many fewer chassis-platform variations. The challenge will be to give distinctive character to cars built off the same components.

Richard Feast

■ MEXICO

Optimism remains despite sharp slowdown

Most car companies assume that economic growth will pick up

AFTER steady growth over the past five years, Mexico's car and truck industry is now suffering from the country's sharp economic slowdown.

In the five months to May, domestic and export sales reached 445,768; a drop of 3.1 per cent on the same period last year. The market had been expecting growth of at least 5 per cent, after last year's increase of 8.8 per cent, and double-digit growth of previous years.

The contraction is largely due to a 22.5 per cent reduction in van and lorry sales as small and large businesses have cut purchases in an environment of low economic growth. Car sales increased by a modest 3 per cent, while exports were flat.

The reduction comes just as Mexico's car industry is preparing itself for the North American Free Trade Agreement, scheduled to come into force by January 1 1994. The treaty is likely to intensify the integration of Mexico's car industry with those of the US and Canada, enabling car companies to rationalise plants in the Americas, concentrating production in the most efficient factories in the region.

Under Nafta, Mexico will gradually dismantle barriers to imports, breaking the complex link between permitted imports into Mexico and a car company's exports and domestic sales. But the US will eventually eliminate its 25 per cent tariff on light trucks, its 2.5 per cent tariff on Mexican cars, and consider Mexican cars as North American for purposes of CAFE, a regulation that encourages car makers to make fuel-efficient vehicles in the US or Canada.

Volkswagen and Nissan control the compact and sub-compact market in Mexico

On one level, the removal of Mexican trade barriers means that US car companies will likely take advantage of economies of scale in US plants, and excess capacity, by exporting from the US to Mexico. New US exports to Mexico could hurt Volkswagen and Nissan which between them control the compact and sub-compact market in Mexico. GM reckons that as a result of greater US exports to Mexico, the US automotive deficit with Mexico of about $2bn a year will turn to a surplus.

In June, General Motors gave a possible signal of events to come when it announced it was going to move production of US and Canadian-bound Cavaliers from Ramos Arizpe to Lansing, Michigan.

But Mexico's low wages, special status under Nafta, and the high productivity of its workers make it an attractive location for new plants. GM has said it might start production of a compact car in its Ramos Arzipe factory, and Mercedes-Benz is exploring the possibility of exporting luxury cars to the US from Mexico.

Volkswagen has no factory in the US, and eventually expects to supply part of the US market from Mexican plants rather than, as now, from those in Germany. Other non-US companies, such as Honda and Toyota, may also set up in Mexico to take advantage of its access to the US.

Nafta also forces car companies to meet a stiff North American rule of origin requirement of 62.5 per cent. While the US companies easily meet this target, VW and Nissan are having to persuade German and Japanese parts suppliers to set up in Mexico so as to comply.

Troubles in the car industry have caused lay-offs and provoke talk of a crisis. On June 15, Ford Mexico fired 680 workers after it cut back production at a plant in northern Mexico City from about 500 to 400 vehicles a day. When announcing the cut-back, Ford said it had been expecting industry domestic sales of 720,000 this year, but it now reckons sales will be about 600,000.

The car companies are blaming weak sales on high interest rates, which have cut demand for credit, and the newly privatised banks which, after seeing a rapid increase in underperforming loans, have become much more cautious in giving out loans.

The elimination of tax deductibility for company vehicles last year also seems to be having an impact.

The worse performing companies have been the US Big Three – Ford, General Motors and Chrysler – partly because they are the biggest producers of trucks and vans, and also because they have not recently invested heavily in new capacity. In the first five months, domestic sales at Chrysler fell 24.2 per cent, at GM by 14.6 per cent, and at Ford by 11.4 per cent. Volkswagen, boosted by sales of its new Jetta, improved by 17.1 per cent, and Nissan was up by 4.5 per cent.

Exports have held up thanks to the recovery of the US economy and increased capacity

Exports have held up better, thanks to the recovery of the US economy and increased capacity. Nissan has started exporting from its new Aguascalientes plant, pushing exports up by 80 per cent, while VW exports increased by 18.1 per cent. However Ford, last year the largest exporter, saw exports fall by 13 per cent and has had to eliminate shifts at its Hermosillo export plant, which produces Escorts and Mercurys for the US market.

Despite this year's problems, the car companies are still optimistic about prospects in Mexico because most assume that economic growth will pick up from the lucklustre 2.4 per cent of the first quarter this year, and interest rates will continue falling.

The Economist Intelligence Unit predicts domestic sales will reach 1.1m by 1996 from 706,914 last year. Exports are predicted to rise to 600,000-700,000; almost double last year's figure of 383,374.

Damian Fraser

■ JAPAN

Too quiet for comfort

AT a Mitsubishi Motors showroom in Tokyo, visitors last month were sent home with a gift bag full of vegetables. Not to be outdone, the nearby Nissan dealer was offering prospective customers a bag of firecrackers and a yo-yo.

Car dealers in Japan are having a quiet season. Last year, for the first time since the second world war, the Japanese car market experienced its second consecutive year of decline. The odds are increasing that the record will be extended to three consecutive years of decline unless the Japanese economy unexpectedly lifts itself out of its gloom.

In the first six months of this year, domestic demand for cars shrank 6.6 per cent, according to the Japan Automobile Manufacturers Association (Jama). After an early jump in sales in March – which proved a false warning, activity in the market has returned to the sluggish state that has become all too familiar in the past few years.

Although the Japanese government is holding firm on its forecast that the economy will see a gradual pickup towards the latter part of the fiscal year, the continuing weakness of personal consumption and private capital investment are casting a dark shadow over that projection.

Mr Yoshifumi Tsuji, president of Nissan, admitted last month that, given the current state of the economy and the sharp rise of the yen, the company might have to revise downward its production target for the year.

The Japanese car industry's troubles are not restricted to the home market. Overseas, Japanese carmakers are coming under severe pressure as a result of the sharp advance of the yen's value against the dollar. One Japanese manufacturer after another has had to raise prices overseas, particularly in the US, to try to salvage what profits they can, as the yen continues its surge.

This has damaged their price advantage at a time when US manufacturers are increasingly challenging the competitive edge Japanese carmakers have had with their better-made cars. In the first three months of this year, the Japanese makers' share of the US market slipped to 27 per cent from 30 per cent.

The political environment also makes it difficult for Japanese carmakers to seek to make up in exports the slack in domestic demand. As the Big Three US companies have brushed up their manufacturing, they have also stepped up political pressure to keep Japanese carmakers at bay, as well as force Japan to open its market more to US-made cars and car parts. They have tried to get the US government to impose higher tariffs on Japanese-made minivans by claiming that Japanese carmakers "dump" their vans in the US. At the same time they have increased political pressure on the Japanese auto industry to buy more foreign-made car parts.

In the EC, calls to curb the Japanese onslaught are no less intense. The European Commission is negotiating with the Japanese government to scale back an agreed target for Japanese car imports into the Community in 1993.

Hopes have been pinned on the Asian market. However, even exports to China (a growing market) have been reduced this year as a result of the adverse effect of the yen's appreciation and a tightening of monetary policy by the Chinese authorities intent on cooling down their economy.

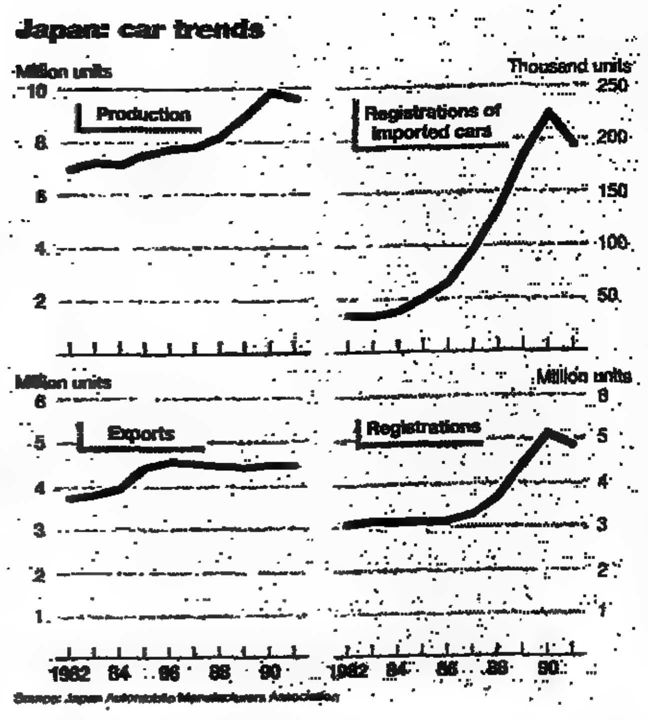
The pressures facing the Japanese industry would have seemed less intractable were it not for the structural nature of many of the problems. The outlook for Japan's carmakers is now radically different from the years of strong growth, in the late 1980s, which led them to invest heavily in the latest production technology and expand rapidly abroad.

In contrast to those days, the industry is today gripped by the recognition that there is an overcapacity in the global car market. For example, in Japan at the end of March last year, according to Jama, 87.3 per cent of households owned a car. Against that background, Mr Yoshihiro Wada, president of Mazda, expects growth in the industrialised world's car markets to be less than 1 per cent. Slower growth means that carmakers can no longer afford to supply a full range of models and compete with each other in every category. There needs to be a division of labour, Mr Wada says.

That is already beginning to happen in Japan. The high and rising costs of development are bringing Japanese rivals together.

Isuzu, a leading truck and commercial vehicle maker, is pulling out of passenger car production and buying cars from Honda. In exchange it is supplying Honda with recreational vehicles. Isuzu is also supplying Mazda with diesel engines. Meanwhile, Mazda and Nissan are negotiating about the possibility of swapping trucks and vans.

Although Japanese and US carmakers have been making cars together for years, the growing links in the domestic market – where rivalries are fierce – reflect the heightened sense of urgency within the industry. The trend is likely to accelerate further. The urgent need to address environmental issues, to raise fuel efficiency and improve safety measures all require that carmakers bring their resources together, says Mr Junji Shibata, general manager of the European and North American Operations Group at Nissan.



"One of the key issues that the managers of carmakers will have to tackle in the future is how to maintain individuality within these alliances," says Mr Taizo Yokoyama, managing director of Mitsubishi Motors.

In the meantime, the Japanese industry is focusing its efforts on readjusting operations to suit the changed market environment. Carmakers are increasingly standardising parts in an effort to cut costs and develop cheaper cars that will cater to the more cost-consciousness Japanese consumer.

But perhaps the greater challenge for Japanese carmakers lies in adjusting to a market that is already mature.

Nissan shocked the nation when it announced earlier this year that it was closing a plant in the outskirts of Tokyo. Others may be forced to take similar measures to deal with their overcapacity. Mazda and Toyota, for example, built up considerable capacity in the boom years of the late 1980s.

While plant closures and redundancies have a high social cost in Japan, the Japanese car industry probably has little choice but to shrink – unless new demand can be tapped in outside markets.

Michiyo Nakamoto

■ SOUTH-EAST ASIA

An important force

THE south-east Asian region, encompassing South Korea, Taiwan and the Asean block, has become an important force within the global automotive industry, and is providing the world's vehicle and components manufacturers with some of the strongest growth rates and most substantial business opportunities to be found anywhere in the world.

During the 1990s the current boom in vehicle output is set to continue apace in the wake of rapidly-growing local demand and the development by a number of companies of important export markets. From a total output across the region of 2.9m vehicles in 1992 (1.9m passenger cars and 1m commercial vehicles) production is expected to increase substantially into the early years of the next century and beyond.

The recently-published Financial Times Management Report, The Emerging Asia-Pacific Automotive Industry: Growth and Opportunities from South Korea to Turkey, which examines this sector in some depth is, for example, forecasting that by the year 2002 some 4.8m passenger cars and 2.8m commercial vehicles a year could be produced in South Korea, Taiwan, Thailand, Malaysia, Indonesia and the Philippines.

According to this report, particularly strong growth is identified as likely in the automotive industries of Taiwan, Thailand and the Philippines (in the latter country from a very small base level of a few tens of thousands of units) for the 10-year period up to the year 2002.

Growth in South Korean vehicle manufacturing is also likely to be substantial over the next decade – especially if plans by one or more participants in that industry for the establishment of overseas plants come to fruition.

Vietnam, which is expected to enjoy rapid economic growth in the foreseeable future, is also expected to emerge as a producer.

So far, the motor vehicle industries of Taiwan and the Asean block have been largely dominated by Japanese multinationals, although opportunities have existed for American and European automakers, and will, indeed, continue to present themselves over the coming years.

Of Taiwan's current tally of 10 vehicle manufacturers in early 1993, eight assemble Japanese makes and three American or European models. One company, Yeu Tyan Machinery Manufacturing, assembles both Daihatsu and Peugeot vehicles. Despite heavy Japanese involvement in the Taiwanese automotive industry, however, Ford has managed to develop the leading position within this sector.

In 1992, the Ford Lio Ho Motor Company, in which Ford Motor Company has a majority shareholding, accounted for more than a quarter of total vehicle output in Taiwan, and is planning an increase in production in the 1990s. Another western opportunity in Taiwan is in the process of being realised: Volkswagen vans are to be produced by the Ching Chung Motor Company from late 1993.

In Thailand, several makes of European vehicles are assembled

In Thailand, several makes of European vehicles are assembled in modest quantities by local companies, although General Motors is thought to be considering the re-commencement of assembly operations in conjunction with the Bangchan General Assembly Company. GM withdrew in 1978 from assembly in that country. The excellent potential of the Thai motor vehicle market could lead several other western carmakers to re-evaluate opportunities.

As in Thailand, the Malaysian motor vehicle assembly sector is almost totally dominated by Japanese models, although seven European makes of passenger car, and one American, were assembled in 1992 in very low quantities. Several other such operations are currently either starting up or planned. In addition, the official first and second national car projects involve respectively Mitsubishi and Daihatsu – although it is not inconceivable that an opportunity for a western luxury car manufacturer could present itself at some stage in the future, should a third national car project ever be formulated.

The position in Indonesia is little different from that in Thailand and Malaysia, although General Motors has been negotiating with two local companies for the establishment of further vehicle assembly agreements. Within the small vehicle assembly industry of the Philippines, Mercedes-Benz in March 1993 received approval from the Board of Investments for the assembly of two models by the Commercial Motors Corporation under the newly-opened luxury car category of the car development programme.

Mark Payne

Kia's Sephia-Mentor: South Korea's Kia Motors has announced a joint venture for the assembly of passenger cars and components in Yanji City

■ SOUTH KOREA

Cheaper won helps exports

SOUTH KOREA'S car industry is once again enjoying an export boom after several years of lagging sales abroad.

The rapid improvement is largely a due to increased price competitiveness resulting from a cheaper Korean won, which has fallen by almost 20 per cent against the Japanese yen since the beginning of the year.

Car exports during the first eight months of 1993 rose by 37 per cent to 358,000 vehicles and would have been still higher if a series of strikes between May and July had not disrupted production at Hyundai Motor, the country's largest carmaker and biggest motor exporter.

There is growing optimism that exports may reach 560,000 vehicles this year, close to the previous export peak of 576,000 units in 1988.

Exports have slumped during the past four years as the appreciation of the won and higher labour costs has pushed the price of Korean cars higher. Complaints about product quality in the late 1980s contributed to a big fall in sales in the US, the main export market.

The drop in exports underscored the Korean carmakers' overwhelming dependency on the North American market – which accounted for 80 per cent of foreign sales in 1988 – and convinced them to diversify their markets abroad.

North America remains the single largest overseas market, but its share of total foreign sales has fallen to 28 per cent this year.

The Asia Pacific region has recently emerged as the second largest market, with a 26 per cent share, with China buying large numbers of Korean cars.

But China's recently imposed ban on car imports to slow consumer spending has provoked worries that sales there may fall sharply.

The biggest disappointment has been Europe. Hyundai in particular has concentrated on expansion in Europe during the past few years and the region overtook the US last year as the company's biggest export market.

The recession caused Korean car sales in Europe to fall by 9.4 per cent this year, and reduced the region's share of exports to 23 per cent, against a 14.3 per cent increase for North America and a 98.9 per cent jump in Asia.

The general improvement in exports is encouraging news for Kia Motor and Daewoo Motor, Korea's second- and third-largest carmakers respectively, as they try to challenge Hyundai's dominance in foreign markets. Hyundai normally accounts for two-thirds of Korean car exports.

Until recently, both Kia and Daewoo have largely relied on supplying cars to other companies on an OEM (original equipment manufacturer) basis for most of their exports. Kia produces the Fiesta for Ford, while Daewoo manufactures the LeMans for General Motors (GM).

Daewoo is initially concentrating on sales in the developing world. It also plans to expand into the US and Europe

But the two are now venturing into foreign markets on their own. Kia is establishing an independent sales network in the US and recruiting local dealers in Europe.

Daewoo, which ended its joint venture with GM last year in order to free itself from restrictions on overseas marketing activity, is initially concentrating on sales in the developing world. It plans to expand into the US and Europe once the GM-imposed marketing restrictions lapse next year.

The two companies are also setting up factories, mainly in Asia and the Middle East, to assemble cars supplied in knock-down kit form.

The sharp rise in exports comes at an opportune moment for the Korean car industry, which is confronting tougher market conditions at home.

Domestic sales, which account for almost 75 per cent of total Korean motor sales, grew by 10.5 per cent during the first seven months of 1993 – much slower than the average annual rate of 40 per cent registered over the past six years.

As the economy stumbles, consumer confidence has weakened. Carmakers are spending more on marketing and sales efforts to reverse the downward trend, while offering consumers generous financing terms that are placing further pressure on profit margins.

The strikes affecting Hyundai, however, have benefited Kia and Daewoo, with both reporting higher sales during the first half of the year. Kia posted a 48 per cent rise in net profits to Won5.2bn (£4.3m) while Hyundai's net profits tumbled by 41 per cent to Won15.4bn.

While the Big Three car producers are engaged in fierce competition in the compact and medium-size car segments, other companies associated with them have been successful in developing specialised niches, particularly in mini-cars and four wheel drive jeeps. These are the fastest-growing areas of the Korean motor market.

Daewoo Shipbuilding began producing mini-cars in 1991. Its success is encouraging Hyundai Precision to enter the market at the end of year, using technology supplied by Mitsubishi of Japan. Kia is also considering producing mini-cars.

Hyundai Precision, which also manufactures containers and tanks, began production of jeeps in 1991. Its Galloper jeep has cut into the sales of Ssangyong Motor, which is Korea's biggest jeep producer.

Ssangyong, which suffered losses of Won8.8bn last year because of the challenge posed by Hyundai Precision, has responded by diversifying into passenger cars.

Earlier this year, it signed an agreement with Mercedes-Benz to begin production of a new range of medium and luxury cars in 1996.

The luxury car segment is rapidly becoming an area of competition among Korean carmakers. Hyundai and Kia already produce luxury car models and Daewoo is expected to join the field by the end of the year with a domestic version of Honda's Legend.

The passenger vehicle market is in danger of becoming even more crowded with Samsung indicating that it wants to manufacture cars within the next few years.

Although some analysts question whether Korea can support nine manufacturers of cars and commercial vehicles, the expansion is being encouraged by the government.

Under its X-5 programme, the government is planning to make Korea one of the world's five biggest vehicle manufacturers by 2000. Korea is already the seventh-largest in terms of production, with 1.73m vehicles manufactured last year.

The government estimates that it will cost $36bn to implement the X-5 programme, with 60 per cent of this devoted to factory expansion and the remainder consisting of research spending in such areas as electric cars. The programme is largely funded by soft state loans.

"It's nuts," said one Seoul-based western industry consultant. "The danger is that Korea is heading toward excessive production capacity.

"It may soon find its Asian market weakening as China builds it own cars. Sales at home could also stagnate because the nation's roads are becoming clogged with traffic and it may not be able to handle much more."

John Burton

■ CHINA

Trickle turns into a torrent

THE Chinese motor vehicle market and industry is currently one of the world's most dynamic automotive sectors. During the 1980s, several Chinese companies concluded licensing agreements with foreign vehicle manufacturers for the local assembly of selected models.

Joint ventures with foreign companies also began to make their appearance in a trickle of deals which has recently turned into a torrent. There has been what has, at times, looked almost like a rush by western vehicle manufacturers to put down a marker in the rapidly-growing (and potentially very rich) Chinese market for all types of vehicles.

The Chinese government has welcomed this process, with Mr Li Peng, the Chinese premier, citing vehicle manufacture as one of the four central pillars of Chinese industry. Technology transfer is actively sought; China is eager to learn from the expertise of the world's vehicle multinationals.

The sector is very highly fragmented, with a large number of relatively small-scale operations likely to characterise the industry for the 1990s. This situation will surely start to change early in the next century, however, given the strength of the vehicle market where growth prospects seem virtually limitless. An equally important influence is the rapid growth of the Chinese economy and the liberalisation of economic and certain political attitudes, for example towards the creation of wealth and the personal ownership of the means of production.

Not only will larger-scale vehicle manufacturing plants probably start to make their appearance in strength, but it is probable China will seek – either through the state or private-sector interests – to develop a truly indigenous motor vehicle design and manufacturing industry.

Throughout the 1990s, the sector will concentrate on boosting output, improving efficiency and profitability, raising economies of scale and upgrading managerial and blue collar expertise and skills.

Comprehensive figures for the levels of vehicle production and sales for any year in China are extremely difficult to come by, with assessments based on individual company releases and on the information put out by the China National Automotive Industry Corporation (CNAIC).

Two things are clear, however. One is the rapid growth in passenger car and commercial vehicle production and sales in recent years. According to CNAIC, output last year reached 130,000 cars – excluding the Daihatsu Charade which is also assembled in China, and Beijing Jeep's aged 2020 four-wheel-drive vehicle – and 960,000 commercial vehicles. The other is that the sector will expand throughout the 1990s.

The recently published Financial Times management report, The Emerging Asia-Pacific Automotive Industry: Growth and Opportunities from South Korea to Turkey, which examines the industry in depth, is forecasting that Chinese output of passenger cars could rise to 1.9m units by 2002, and that of commercial vehicles to 1.6m units.

The potential size of the market explains the scramble since the start of the 1990s by western and Japanese vehicle manufacturers to establish or expand production, assembly or licensing business in China.

Germany's Volkswagen group is in the process of increasing its level of investment. It has entered into two important joint ventures. The first is the Shanghai-Volkswagen Automobile Company, which in early 1992 announced that it was to increase annual output substantially at its Shanghai facility by 1995. The second is the FAW-Volkswagen Automotive Company, which is constructing a plant in Jilin province, scheduled to come on stream by 1995.

The second-largest carmaker in China is France's PSA group, which has two joint ventures. The first is Guangzhou Peugeot which assembles the 505 in the south of China, and the second, SAW Citroën Auto, which in the autumn of 1992 began to assemble the Citroën ZX hatchback.

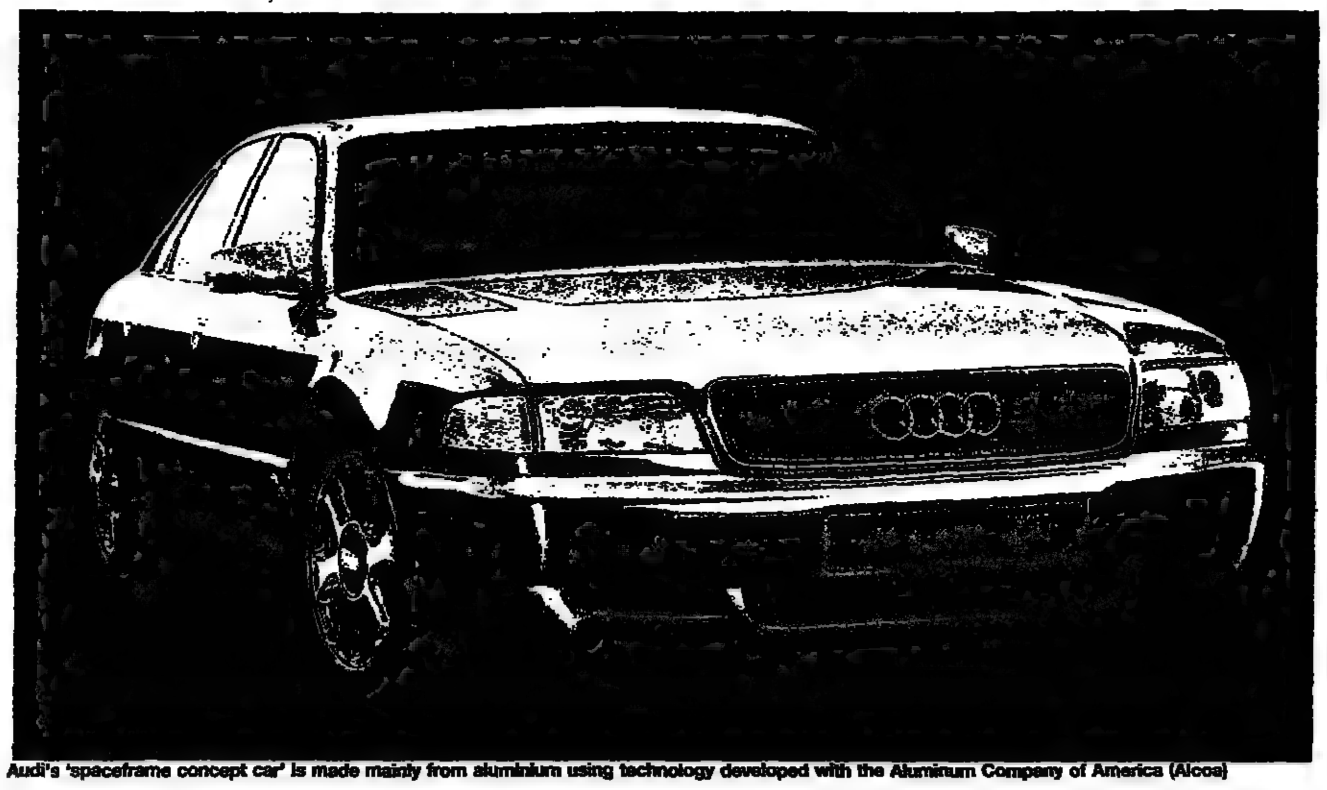
Among other European vehicle manufacturers, Mercedes-Benz has interests in the commercial vehicle sector in China, while Italy's Iveco has a tie-up with Nanjing Motor for the production of light trucks.

Two of America's Big Three are building a strong presence. Chrysler has a shareholding in the Beijing Jeep Company, which manufactures the Cherokee four-wheel-drive vehicle. At the start of 1993 General Motors formed a joint venture with the Chinese van and light truck producer, Jinbei Automotive.

Most Japanese carmakers have already concluded joint ventures or technical assistance agreements in China. These ventures include Zhengzhou Nissan Automobile, the Hainan Mazda Motor and Stamping Company, the Changan Suzuki Automobile Company and the Shenyang Jinbei Passenger Vehicle Manufacturing Company, in which Toyota is in partnership with Brilliance China Automotive Holdings.

In addition, Daihatsu and Fuji Heavy Industries have technical assistance agreements with Chinese vehicle manufacturers. Other Asian vehicle producers are also eyeing opportunities in China. These include South Korea's Kia Motors, which has announced a joint venture for the assembly of passenger cars and components in Yanji City.

Mark Payne



Audi's 'spaceframe concept car' is made mainly from aluminium using technology developed with the Aluminum Company of America (Alcoa)

Audi's top-of-the-range V8 saloon, based on the spaceframe concept, will set new standards because of its light weight

■ MAGNESIUM vs ALUMINIUM

Focus on weight reduction

It is almost certain that carmakers will employ both materials much more extensively in future, particularly in the US

GETTING your retaliation in first is a well-tried battle tactic. Mercedes-Benz is aware how effective this can be – and therefore its latest shots in the increasingly hostile European car wars involved a paean to magnesium metal.

Mercedes suggested that magnesium had big advantages over steel, aluminium and plastics for car producers needing to reduce the weight of vehicles. And certainly that is what producers are concentrating on today because weight reduction is the single most effective way to cut fuel consumption.

The German company's statement was obviously designed as a "spoiling" exercise ahead of an October Press briefing by its rival Audi, the up-market part of the Volkswagen group, extolling the virtues of aluminium in cars. Audi is soon to launch an "aluminium-intensive", top-of-the-range V8 saloon which it developed along with the Aluminium Company of America.

"This is our most important project," says Mr Franz-Joseph Kortum, Audi's chairman, of the DM1bn venture. "We are trying for a second time for success in this segment of the car market and this is a great challenge for the company. But we will set new standards in this segment. We have changed the rule that says the bigger and better the car, the heavier it must be.

"It is true that cars generally have improved enormously, but the weight has increased enormously, too." He says the new Audi will offer drivers "a new experience because of its light weight, stiffness and rigidity and safety." Many will find its performance and low fuel consumption astonishing, he predicts. "And this is because it is build of aluminium."

Hydro this year started supplying aluminium space frames

BMW also chipped in with the news that it has signed a co-operative agreement with Hydro Aluminium of Norway for the development of aluminium components – possibly even the production of complete "space frames," skeleton-like frames to which body panels can be fixed. But BMW said it had no plans for volume production of an entire aluminium-intensive car such as Audi's.

Nevertheless, BMW's M-Technik offshoot is using an aluminium space frame in its prototype E1 electric vehicle for California. At the Geneva Motor Show this year, the group presented the Z13 concept "city car", which has an aluminium frame, recycled plastic panels, and a motor-cycle engine.

Hydro, part of Norsk Hydro, Norway's biggest industrial group, this year started supplying aluminium space frames from a Michigan factory for General Motors' new Corvette sports. It has also been co-operating on car space-frame concepts since the mid-1980s with various groups, including Renault in France, Porsche in Germany and Pininfarina in Italy.

Yet Mercedes intervention is a timely reminder that the automotive industry is interested in metals other than aluminium. And the automotive sector is expected to play a big role in magnesium's future.

According to Mining Journal's annual review, in 1991 there were nearly 40 magnesium components already in production for US and Canadian cars, compared with only one 10 years previously.

At the Institute de la Technologie du Magnesium, in Santa-Foy, Quebec, which specialises in contract research and development work, half the members are Japanese while the US automotive industry is represented by General Motors.

An average of 4.5lb of magnesium per car was used in North America in 1990 and the Cadillac North Star engine, launched last year, uses 15lb of the metal.

While this trend is particularly important for the use of magnesium in die-casting, extrusions are also set to become competitive and magnesium is already the choice for a growing number of structural automotive uses such as road wheels, seat frames, housings and valve covers.

Although it is one of the lightest metals available for automotive design engineering, magnesium displays outstanding strength-to-weight and stiffness-to-weight ratios. Its proponents also say the metal has superior damping qualities to absorb noise and vibration and it is the easiest of all structural metals to machine. Mercedes commented on this aspect: "Magnesium has the advantage compared with aluminium in that it can be better processed in many ways and consequently can be cheaper in the end."

Mercedes pointed out that new high-purity alloying processes can offset magnesium's traditional disadvantages to a carmaker – its relatively high price, poor corrosion resistance, low strength and inability to keep its shape in warm conditions. Magnesium alloys reach the required elasticity levels of up to 10 per cent without costly heat treatment, it added.

The group has been working with a foundry specialist on a new thin-wall pressure casting technique which allows a 40 per cent reduction in material thickness. This "opens up a new spectrum of possibilities for the use of magnesium."

Mercedes has been using magnesium seat frames for its SL Roadster since 1989 and said it had "favourable experience" in using it in bodywork, too. But Mr Werner Heiss, of Mercedes' pre-development trials division, said it was unlikely the metal would be used for engine blocks in water-cooled engines.

"Consistent use" of magnesium could reduce a car's weight by 10 per cent, he said.

Mercedes pointed out that it would not be difficult for the world to produce enough magnesium, no matter how much the carmakers eventually required, and that the metal could easily be recycled.

Mercedes' attempt to place magnesium in competition with aluminium is a little puzzling given that its small concept car at the Frankfurst Show will be the Vision A93 which has a body, fuel tank and seat frames made of aluminium. And in many ways the metals complement one another – a great deal of magnesium is already used in aluminium alloys.

The Synthesis is 'a rolling test bed for new technologies'

It is almost certain that carmakers will employ both materials much more extensively in future, particularly in the US where they have to meet government-imposed fuel economy targets but the market shows customers do not want very small cars.

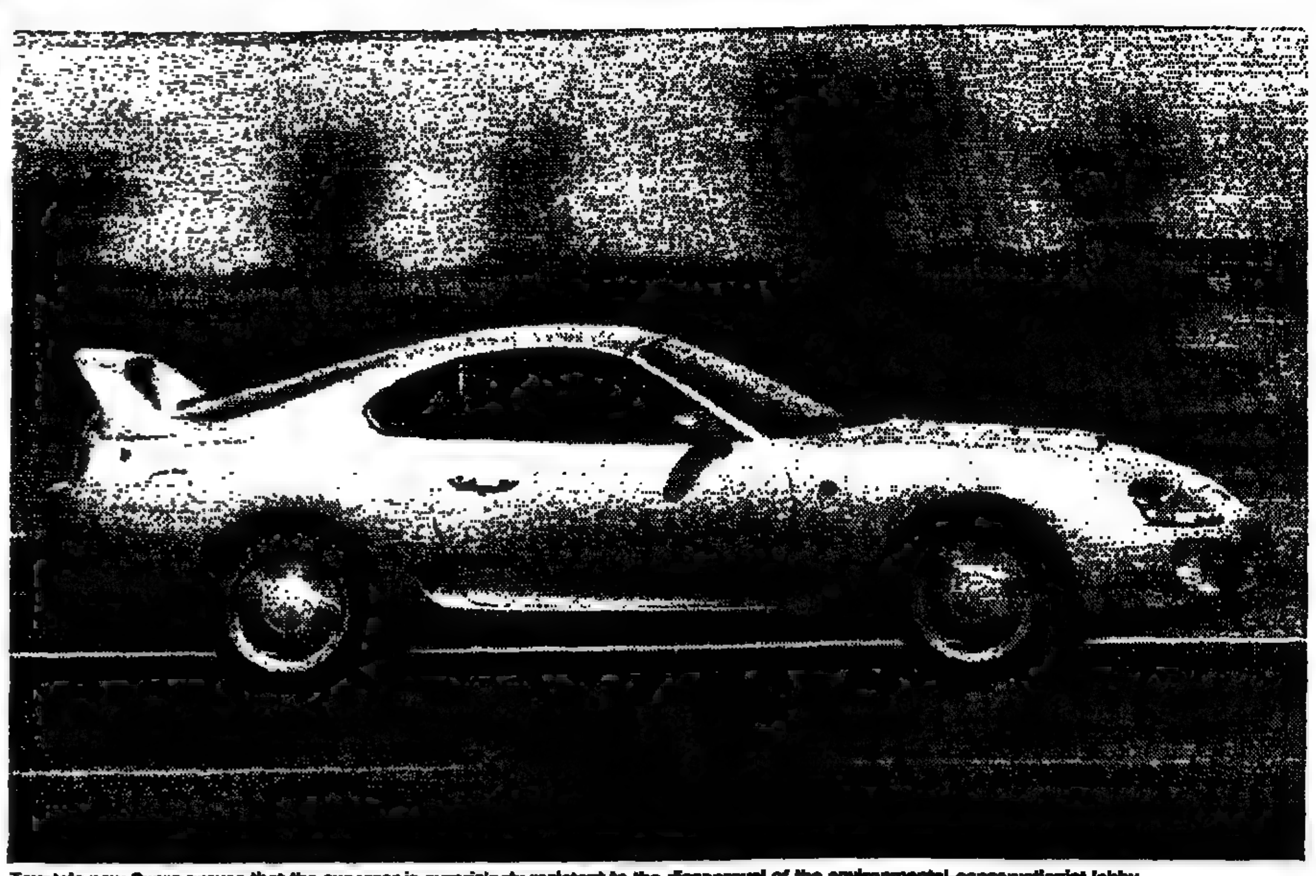
For example, Ford not so long ago announced plans to install North America's first-ever car seat stanchions made of magnesium. Yet the US's second-largest vehicles group is also using more aluminium than the rest of the American motor industry combined – about 16m tonnes a year.

Mr Kenneth Kohrs, Ford's vice-president of car product development, has been standing up for the aluminium-intensive car. He revealed that Ford was testing a fleet of 20 Mercury Sable cars made mostly of aluminium as part of a $25m effort to see whether volume production of an aluminium-intensive car was feasible. He said the experimental Sables each weighed 400lb less than an identical version made of steel.

Ford has also developed the Synthesis 2010, about the same size as the Sable but which achieves weight savings of about 1,000lb. The Synthesis, "a rolling test bed for new technologies," is powered by an aluminium, three-cylinder, two-stroke engine. Reynolds Metals, the second-largest US aluminium producer, and Alacan of Canada, the western world's second-largest aluminium producer, have both been working with Ford on its aluminium projects.

Kenneth Gooding

Citroën's Xantia is proving to be a powerful challenger in the fleet market traditionally dominated by Ford and GM products



Toyota's new Supra proves that the supercar is surprisingly resistant to the disapproval of the environmental-conservationist lobby

■ NEW MODELS

Conventional cars are multiplying

All 1994 models are safer than the cars they will replace. The industry has also been trying to minimise their impact on the environment

IN an ideal world, all the new cars which will make their debut at Frankfurt and Tokyo motor shows would have been designed simply and solely as safe, economical personal transport making the minimum impact on the environment.

Some of them have – although they are mainly concept cars which may or may not go into production.

In the meantime, conventional cars with potential maximum speeds exploitable only at rare intervals on the derestricted parts of Germany's *autobahnen* are alive and multiplying. The new Porsche 911 and Toyota's new Supra, which is capable of 180 mph (290 kph) but restricted to a more seemly 155 mph (250kph), prove that the supercar is surprisingly resistant to the disapproval of the environmental/conservationist lobby.

To be sure, all 1994 models, *be they European, American or* Far Eastern, are safer than the cars they will replace. And the industry has been going to great lengths (and enormous expense) to minimise their environmental impact during manufacture, for the whole of their working lives and when they are finally scrapped.

Active safety has been enhanced by the anti-lock braking systems (ABS) which have become standard equipment on medium and higher priced cars. Traction control systems, using the same elec*tronic sensors as ABS*, are gradually being introduced. Permanently engaged four-wheel drive is available on a limited number of purely road-going cars for buyers who feel the need for maximum possible tyre grip for performance or safety reasons.

On the passive safety front, reinforcing bars are now fitted to the cheapest cars to limit intrusion into the passenger protecting cell in side-on accidents. Buyers of executive-class cars now expect driver-side airbags as standard equipment, with passenger-side airbags as not-too-expensive optional extras.

ProCon Ten, an ingeniously simple mechanical system which pulls forward the steering wheel in an impact severe enough to displace the engine backward and simulta*neously tightens the seat belts* against driver and front passenger remains exclusive to Audi. There are signs that it will be abandoned in favour of airbags. The new VW Passat being launched at Frankfurt has them as standard for both front seat occupants. Impact-sensitive, self-tightening belts, however, are now common to most makes of car.

Inevitably, improving the driver's chances of preventing a hazardous situation from developing into a collision, and protecting a car's occupants better if the worst should happen, has its downside.

Making new models crash-safer has increased their weight and complication. To maintain or improve performance, particularly acceleration and easy driveability in traffic, they are tending to *have lower overall gearing*, which does not help fuel consumption.

The potentially adverse effects of heavier construction and lower gearing on fuel consumption are being offset by improved electronic management systems for petrol engines and the wider adoption of fuel-efficient diesel – and particularly turbo-diesel – engines.

Volkswagen *is showing* at Frankfurt a management system which further improves the economy of diesel cars by shutting off the fuel supply and stopping the engine on downgrades. Saab's 900, its first new model since General Motors took a controlling interest, is to be available – initially only in the turbo version – with a Sensonic automatic clutch.

This system is a half-way house. The driver still has to change gear with a conventional lever but there is no clutch pedal. Sensonic provides many of the advantages of a conventional torque-converter automatic transmission without any fuel consumption penalty. Eliminating the gear lever and shifting by buttons on the steering wheel is the next step.

There are signs at Frankfurt – and there will be *signs* at Tokyo – that a rash of really small cars is coming in the second half of this decade. New models will be nearer to the Fiat Cinquecento and Japanese microcars in overall size than existing small Europeans such as the British-made Nissan Micra, the Opel (Vauxhall) Corsa, Renault Twingo and Rover 100 (Metro in UK). Corsa and Micra have proved that in *terms of performance, ride* comfort and general utility, the only thing distinguishing a really small car from a medium sized one is its bulk.

Mercedes-Benz, whose Vision A 93 design study is a Frankfurt talking point, speaks of growing demands by customers for cars of individuality and quality that will be suitable for use in crowded conurbations but still capable of lon*ger journeys*. BMW's 3.7 metre-long E1, designed for either battery-electric or petrol-engine power, is similarly targeted. The Fiat Cinquecento, seemingly parkable anywhere, does not feel in the least out of its depth on a motorway; and it is on the market now.

Recognising that multi-cylinder buyers do not necessarily want a conventionally large car has led General Motors to offer a 2.5 V6 engine in its medium/large *Opel* Vectra (Vauxhall Cavalier), Calibra coupé and Saab 900. Especially when combined with automatic transmission, a small V6 is an appealing package, as Japanese producers like Mazda realised earlier on. Next year, Ford's successful Mondeo will go on sale with a US-made 2.5-litre V6 engine and automatic transmission.

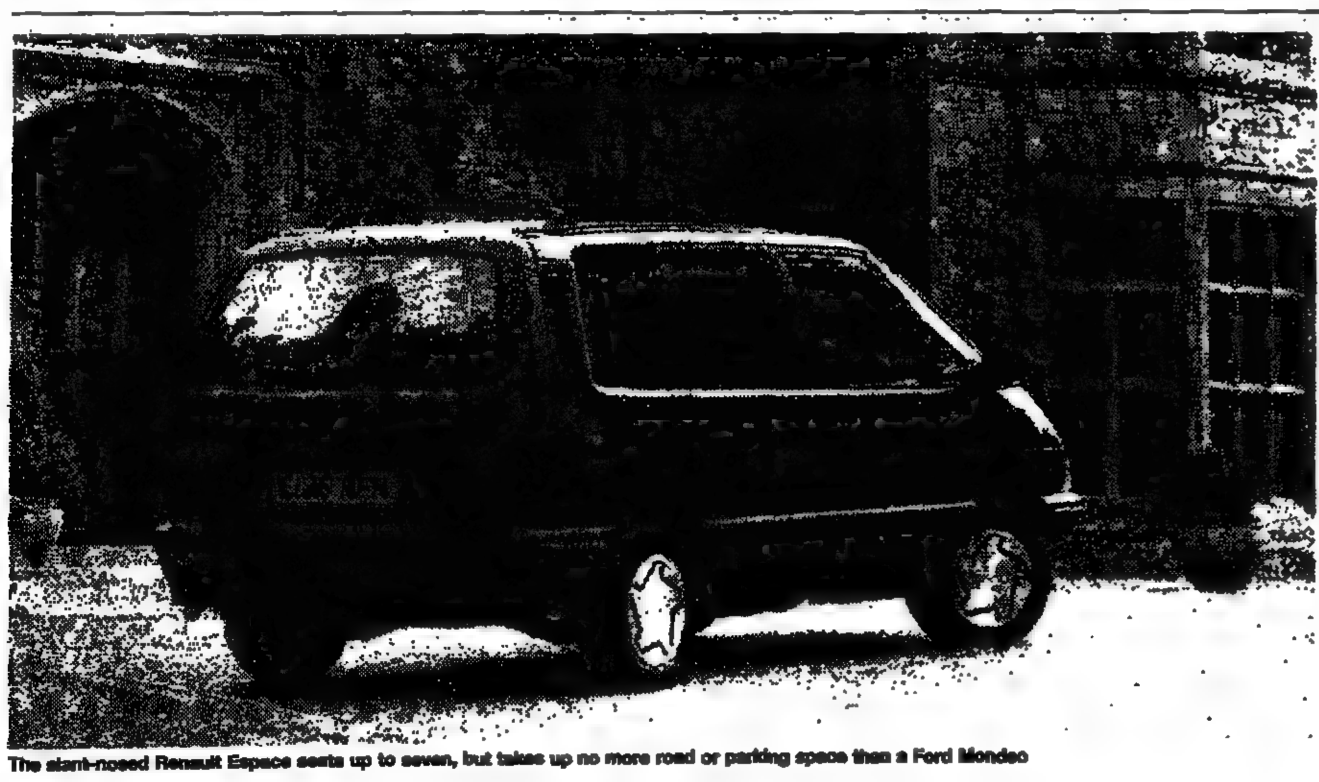
The civilised benefits of air conditioning have already spread from luxury to executive cars. Now they are now *begining to reach the broad* base of the European market, just as they did years ago in the US and Japan. At the same time, the convertible market is booming, with Peugeot launching its 306 and Volkswagen its new Golf soft-tops at Frankfurt and Saab promising a new 900 cabriolet by the spring of 1994.

Just as the BX propelled Citroën into the mainstream European car market in the *early 1980s, the Xantia which* has just succeeded the BX is proving a powerful challenger in the fleet market traditionally dominated by Ford and GM products. It is an outstanding car, widely tipped as a likely European Car of the Year 1994 contest winner. It combines a roomy though elegantly styled body with advanced self-levelling suspension and refined diesel and turbo-diesel engines.

In the luxury class, Rolls-Royce has squeezed more power from its venerable V8, while Mercedes-Benz, aware of a trend among business buyers away from very large cars with very large engines, has introduced a 2.8- litre, six-cylinder version of the S-Class.

Some versions of its new C-Class saloons, which have been aimed at younger than *traditional Mercedes-Benz buy*ers, have the world's first four-valves-per-cylinder diesel engines. Although they have been on sale for some weeks in Europe, they are making their first show appearance at Frankfurt.

Stuart Marshall



The slant-nosed Renault Espace seats up to seven, but takes up no more road or parking space than a Ford Mondeo

Nearly 4m units of Chrysler's Voyager mini-van have been sold worldwide since its launch in 1983. European production began in Austria last year

■ MULTI-PURPOSE VEHICLES

The logic is impeccable

THEY call them multi-purpose vehicles, or MPVs for short, *and their numbers are growing* fast because they are so practical. Buyers all over the world have found that MPVs are like dishwashers and home laundries. Once you have acquired one you find it hard to believe you ever managed to live without it.

The logic behind the MPV is so impeccable it seems odd that cars were ever made car-shaped instead of box-shaped. There is no better shape for a container to put things – or for that matter, people – in than a box. It combines maximum interior space with minimum external dimensions.

Could there be a better formula for a car to be driven and parked on increasingly crowded roads? Why should a car's engine stick out in front, as the horse did before mechanically propelled vehicles were invented?

Designing the "three-box" car (bonnet, body and boot) was really a retrograde step because the first horseless carriage had all the machinery underneath.

But the first MPV was rear-engined. The VW Microbus of over 40 years ago was a delivery van with three rows of seats and windows, powered by a hard-worked VW Beetle engine under the boot. It was incredibly successful, and so long *lived that it has only been* replaced within the last 10 years.

Since then, MPVs have largely left their commercial roots behind. They are now *like cars to drive, even though* some still look rather van-like, being essentially box-shaped.

*Best known of the new gen*eration of MPVs in Europe is the slant-nosed Renault Espace *that resembles a French TGV* (train grand vitesse).

It seats up to seven, but *takes up no more road or park*ing space than a Ford Mondeo.

In a market segment that *accounted for 1 per cent of* total new car sales in Western Europe last year and is projected to grow to 2 per cent in *1996 and 3 per cent by 2001*, the Espace continues to dominate. The 56,317 units sold last year (one in four of them turbo-diesel powered) accounted for exactly 50 per cent of the Euro-MPV market.

Next to Espace the most significant purpose-designed Euro-MPV, as distinct from a panel van conversion, is the Nissan Serena. It is made in Spain, where Nissan is half-way through a $1.4bn, five-year investment programme running until 1996.

About 80 per cent of Serena's content is European. Current production capacity is 205 units per day and the line is 50 per cent automated. If demand rises, Nissan will install more robots to boost output.

But Espace and Serena are only the tip of a European MPV iceberg. Next year, a vehicle jointly developed by Fiat and PSA and bearing a flattering resemblance to the Renault Espace will enter the market.

The year after, a co-operative venture by VW and Ford will result in production of a multi-purpose vehicle starting in Portugal.

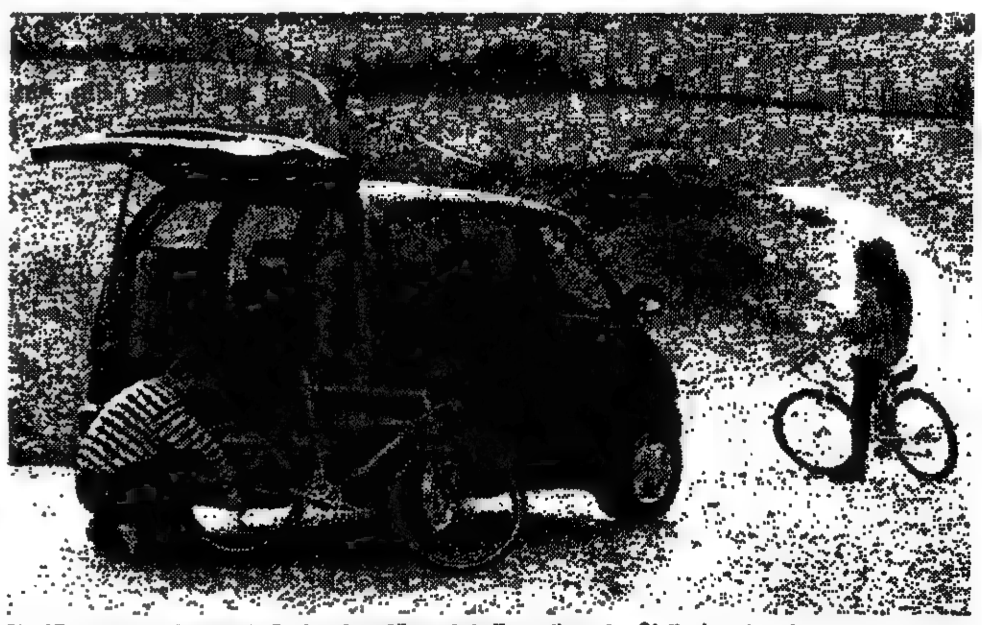
Other European manufacturers with MPVs on the way include BMW and Mercedes-Benz; Volvo (a joint effort with its partner, Renault); and Opel.

European producers appear *to be contemplating a merging* of function and identity between the currently popular *on-off road 4x4 vehicles* and MPVs.

Few on-off road 4x4 owners *ever contemplate seriously* driving across country – not least because it is difficult to *find anywhere to do so without* offending either the law or environmentalists, perhaps both.

Many of these 4x4s are bought to use as car alterna*tives by people who value their* high driving position, roominess and individual styling, and to whom sheer off-road capability has very low priority.

Some may well want enough additional traction to cope with snowy hills or crossing a muddy field but would not dream of driving over really rough terrain.



The Nissan Serena is made in Spain, where Nissan is half-way through a $1.4bn investment programme

For them, the ideal vehicle would be a tall MPV with *four-wheel drive – such as the* Renault Espace Quadra or the Mitsubishi 4x4 Space Wagon. *The current boom in sales of* 4x4s designed specifically as off-road vehicles could run out of steam in the next few years, as manufacturers introduce on-road MPVs with either selecta*ble or full-time four wheel* drive.

Japan has a number of MPVs *in production, although not all* of them come to Europe. One that does come is the Toyota *Previa, a purpose-designed* MPV which succeeded the original panel van-based Space Cruiser. Previa is a little bigger overall than the Espace, seats *up to eight people and has a* 2.4-litre, 4-cylinder engine laid on its side and tucked away under the floor.

Although strikingly spacious, it is not so big and bulky *as to be difficult to squeeze* into a meter bay.

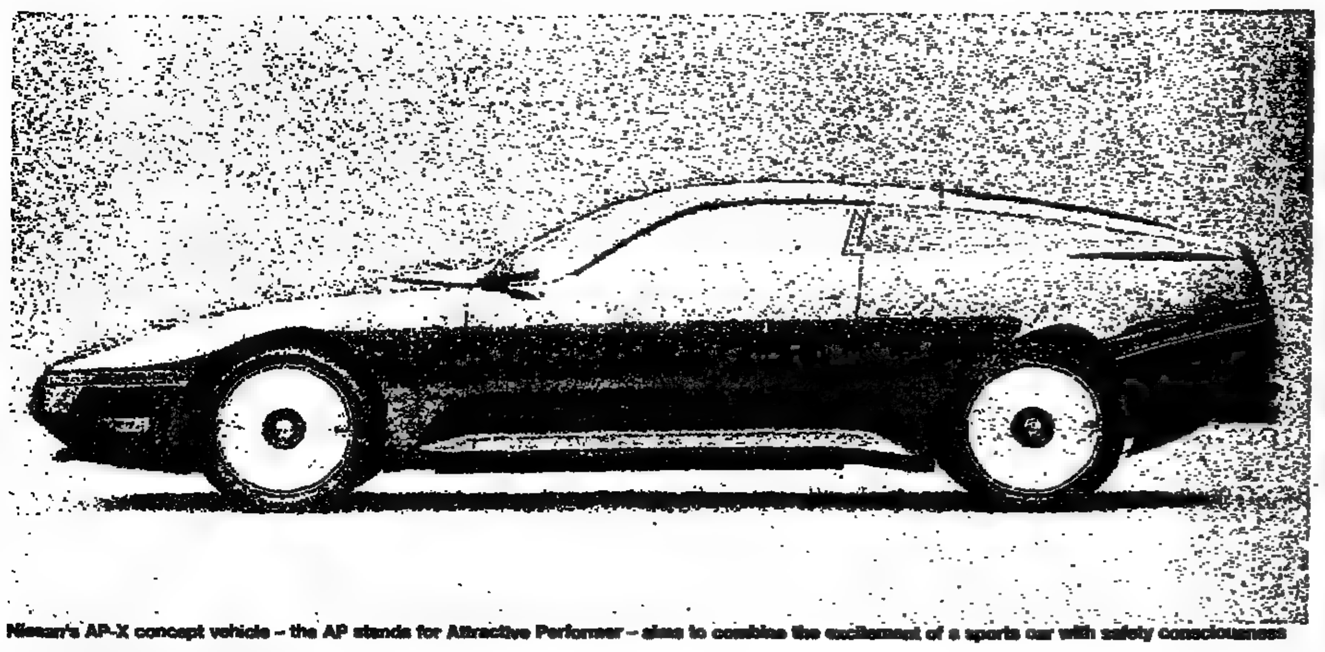
Although Europe, beginning *with the VW Microbus of the* 1950s, is the ancestral home of the MPV, the US is where the *concept has really taken off*. There they are called mini-vans, although by European standards they are anything but mini-sized.

Nearly 4m units of Chrysler's *Voyager mini-van (MPV) have* been sold worldwide since its launch in 1983, about 500,000 of them in the 1993 model year just ending. It is the world's most popular MPV; for the last seven years *it has held more* than 50 per cent of the mini-van market in the US.

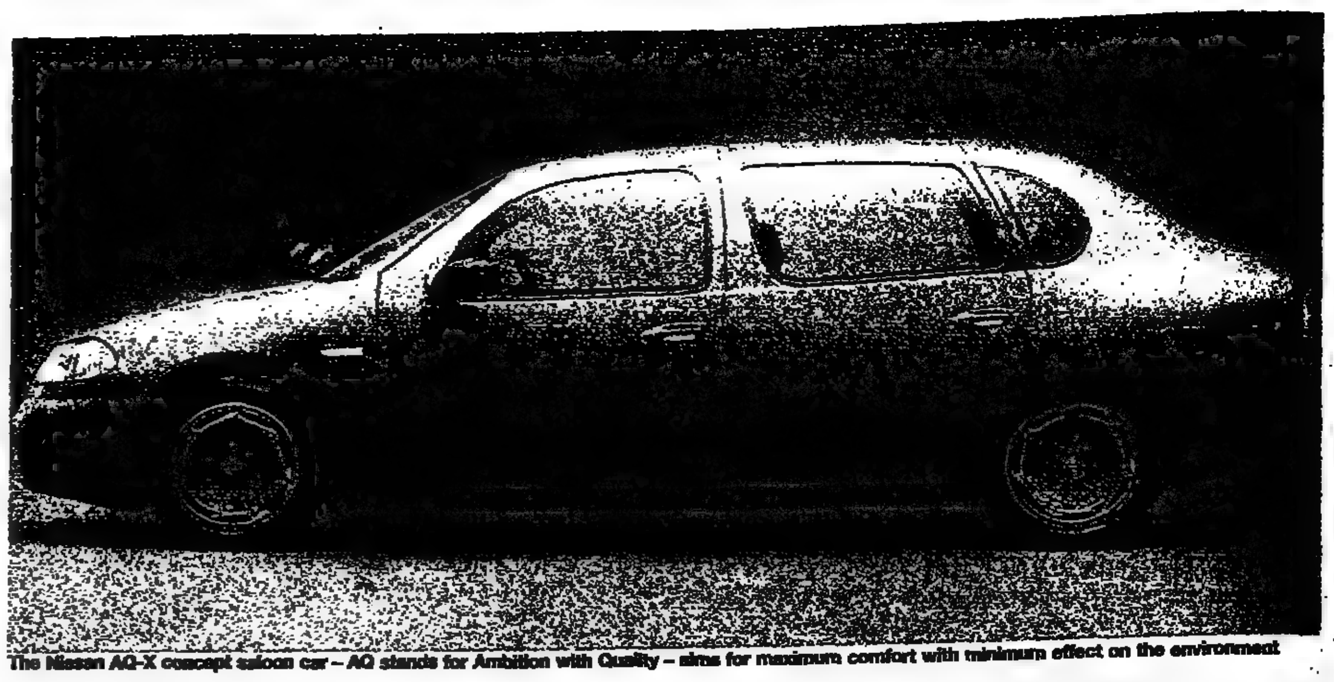
Production of the Voyager began in Europe last year at the Eurostar *plant* in Austria operated by Chrysler in partnership with Steyr-Daimler-Puch AG. *This year's* scheduled output of 27,000 units is forecast to increase to 50,000 a *year in 1994-95. In two years* time a new model with sliding passenger doors on each side, *instead of only one on the right* hand side, will make the production of right-hand steering *versions for the UK market* commercially viable.

Ford's rival to the Chrysler Voyager *is the* Aerostar, launched in the US in mid-1985 and – a foretaste of things to *come in the European MPV* market – produced in two-wheel or four-wheel drive ver*sions with 3-litre or 4-litre V6* engines.

Stuart Marshall



Nissan's AP-X concept vehicle – the AP stands for Attractive Performer – aims to combine the excitement of a sports car with safety consciousness



The Nissan AQ-X concept saloon car – AQ stands for Ambition with Quality – aims for maximum comfort with minimum effect on the environment

■ THE CAR OF THE FUTURE

Age of the city car is about to dawn

FOR most of us, the name Mercedes-Benz evokes images of large luxury cars. Yet one of the most significant potential trends for cars of the future is that Mercedes will unveil a concept car smaller than a Ford Fiesta at the Frankfurt motor show this week, and that the ideas it incorporates will provide the basis for a production Mercedes of the late 1990s.

The age of the "city" car – small, light, miserly on fuel or alternatively using electrical energy – appears to be about to dawn in Europe.

The Twingo runabout from Renault, and the Polish-built Cinquecento from Fiat, have already given renewed momentum to the European market for very small cars – a market all but ignored during the economic boom years of the 1980s. (The sector is long-established in Japan, where there is a flourishing market for "micro-cars" specifically designed for urban use.)

Current cars, however, are equated with cheapness and utility. Mercedes' model, which in concept form is called the *Vision A 93*, should show, once and for all, whether the "city" car concept can be satisfactorily taken "up-market."

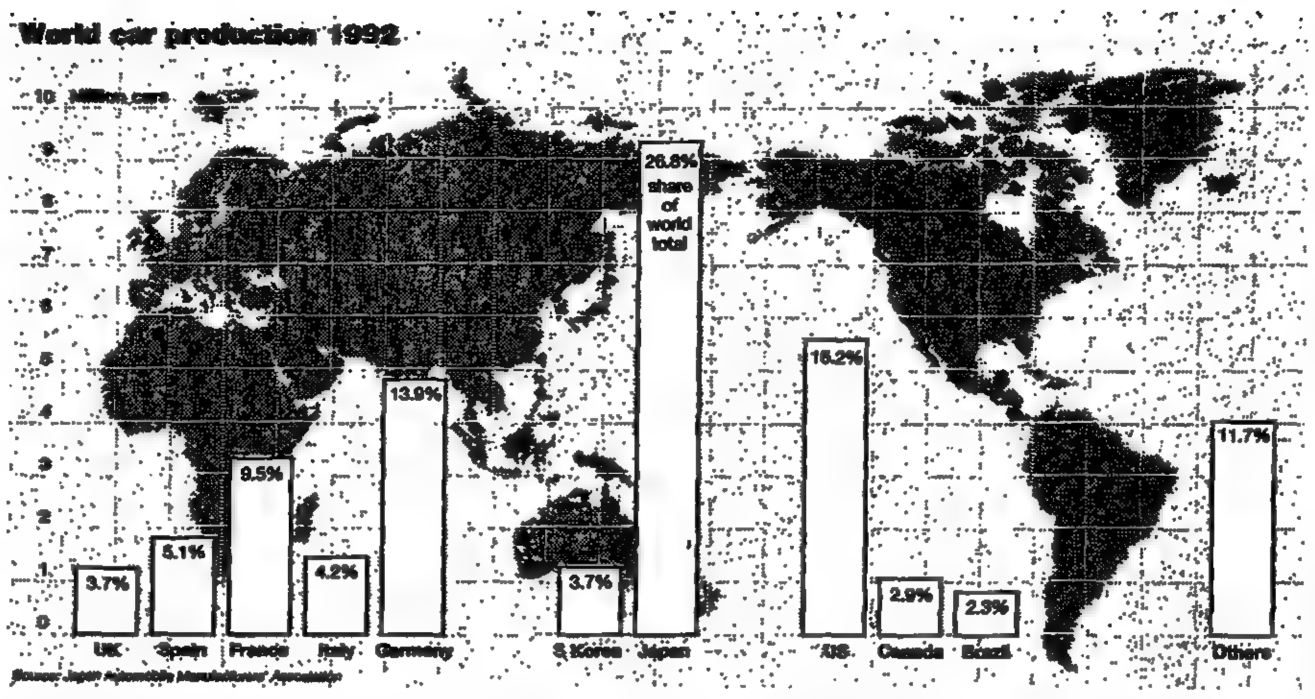
Rapidly increasing urban traffic congestion, concern about the pollution thus caused, and even the prospect of city centres being closed to all but electric cars or other very "clean" alternatives have been driving factors behind the development of the "Vision" – together with Mercedes' own acknowledged need to find commercially attractive new market sectors.

But Mercedes is not alone. BMW has produced a three-seater prototype of its own, the Z13. Volkswagen will start production of its city car, the Chico, in 1995, and many other manufacturers have similar projects in development.

BMW's Z13 is more obviously a "city only" car than the Mercedes. It has been designed and developed mainly for driver-only operation; it is powered by a 1.1 litre motorcycle engine mounted at the rear with a continuously variable automatic transmission. The driver is seated centrally, with two full-sized seats for possible passengers set back slightly on either side.

The Vision has been designed as a four-seater and is intended to be usable on longer journeys. With impact safety in mind, the engine – petrol, diesel or battery-powered electric – is located centrally under the passenger compartment.

Importantly, Mercedes claims that the petrol and diesel engines would both qualify as "ultra-low emissions vehicles" under California's draconian clean air regulations, and the electric version would qualify as a "zero emissions vehicle"(ZEV). Starting in 1998, California will require 2 per cent of a manufacturer's total car sales to be of ZEVs, rising to 10 per cent by the year 2010, if the manufacturer wants to go on selling its vehicles in California's 1m-plus annual new car market.



Source: Japan Automobile Manufacturers' Association

Both the BMW and the Mercedes models would have in common in their bodies the extensive use of aluminium, seeking the lightness needed for good fuel economy from small capacity power units, or in compensation for the weight of the air conditioning, mobile telephone, navigation system and fax – all considered as possible *de rigeur* fitments for cars towards the end of the 1990s.

Not surprisingly, aluminium producers are watching these developments with the closest interest: it now looks increasingly likely that the material will have a much expanded use in the car of the future.

Aluminium's attractions are obvious: it is extremely light and much easier and cheaper to shape than steel. On the other hand it is more easily damaged; it is more difficult to weld than steel; and it requires a great deal of energy to produce, so it is a good deal more expensive.

In terms of total energy requirement, however, its exceptional capacity to be recycled works in its favour in the long term. Smaller, lighter engines, gearboxes, driveshafts and other mechanical components can be used.

So far, aluminium has provided the main bodywork only for expensive, limited production cars such as Aston Martin or Honda's NSX sports car. But the next substantive move towards wider adoption by vehicle manufacturers is imminent, within the next few months, with the launch by Audi of its replacement for the V8 saloon and which will have an aluminium chassis.

The car will mark the culmination of an 11-year collaborative project between Audi and Aluminium Company of America (Alcoa). It required not only the development of new alloys with the required crash protection properties, but also new production processes. The car will have a skeleton-like spaceframe made up of about 100 robotically welded pressings – about one third the number required in a steel-bodied car.

The partners' faith in the future of aluminium for the motor industry is such that Alcoa has built a $70m facility at Soest, Germany, to make the spaceframes – and to offer its services to other vehicle makers. However, the material is not yet a candidate for cheaper, very high volume production cars; at present the process is cost-effective only for production runs of up to 100,000 cars a year.

But the revival of interest is aluminium is causing a certain amount of wariness at some large chemical groups such as Dow and DuPont, which have large plastic composites interests. For much of the 1980s it appeared that plastic composites could emerge as stronger, non-rusting rivals to metal for the load bearing main structure of a car. Complexity and recycling difficulties make this a more distant prospect, although the use of plastics continues to increase steadily in other non-stress bearing applications.

With or without aluminium, "downsizing" of cars is occurring across most vehicle sectors as sophisticatedcomputer aided design and manufacturing systems allow much better packaging of mechanical components, thus leaving more room for occupants.

Mercedes is even investigating ways of making its top-range "S" class models appear smaller, following criticisms in some sections of the press that it seems too much of an environmentally-unfriendly leviathan.

John Griffiths

FINANCIAL TIMES SURVEY

WORLD CAR INDUSTRY

Thursday September 9 1993

BMW's latest concept for a small car, the E1, is a two-door, four seater with electric, petrol or hybrid engines

The Mercedes-Benz Vision A 93 concept car features an aluminium body and a choice of diesel, petrol or electric engines

A fierce fight for survival

The recession has exposed severe problems within the world car industry. In the battle to restructure there will be casualties. Kevin Done reports

THE tables are being turned with a vengeance in the world motor industry. After several years of intense pain, the big three US carmakers have returned from losses, earning $2.3bn of net profit in the second quarter of this year alone.

Now, it is the Japanese and European vehicle makers who are on the rack. As sales fall, the losses are mounting. Nissan is in loss in Japan, as is Volkswagen in Europe.

The fortunes of the US carmakers are improving as part of the gradual recovery in the US economy, but the US auto industry turnround is more than merely a cyclical recovery.

There is a new air of confidence in Detroit as General Motors, Ford and Chrysler sense that a watershed has been reached in their battle to restructure and to contain the advances of the previously all-conquering Japanese vehicle makers.

Under heavy pressure from the rising value of the yen, Japanese producers are being forced to raise their prices in the US much faster than their American rivals. After a number of years in retreat US carmakers are stemming the tide – at least for the moment – and it is their Japanese rivals who are now being forced to cede market share in North America.

Symbolic of the changing order, the Ford Taurus last year ousted the Honda Accord from the position it had held for three years as the best-selling car in the US. The share of Japanese makes in the US car and light truck market fell in 1992 to 24.3 per cent from 25.7 per cent a year earlier. In the first seven months this year the Japanese share dropped away further to 22.3 per cent.

The US vehicle makers have benefitted in particular from the growing popularity of light trucks – pickups, mini-vans and sport/utility vehicles – which increasingly are replacing saloon cars for passenger use. The big three dominate the US light truck market, where sales have jumped by 18 per cent in the first seven months this year, compared with a rise of only three per cent in new car sales.

The return to health of the US industry – signalled most emphatically by the transformation of Chrysler's fortunes, whose share price has jumped fivefold in the last 18 months – is still far from complete, however.

The big three carmakers face a difficult round of labour negotiations this autumn, and General Motors, the wounded giant of the world auto industry, is barely out of intensive care. After three turbulent years, GM's North American automotive operations were still in the red in the first half of 1993 incurring a loss of $289m, although Mr Jack Smith, GM chief executive, insists that the business can meet its target of a $4.5bn turnround by breaking even at an operating level in the full year.

Japanese carmakers, under pressure in North America, are facing, too, an unprecedented third successive annual decline in new car demand in their domestic fastness, where imports still account for only four per cent of the market. New car registrations in Japan this year are forecast to be 18 per cent lower than in the peak year of 1990.

Several Japanese carmakers have fallen into loss, most notably Nissan, the country's second largest vehicle producer, and Mazda. Toyota, the world's richest carmaker and leader of the Japanese industry, has suffered three years of falling profits and a further decline is expected this year. Honda's pre-tax profits in the three months from April to June fell by 55 per cent.

The Japanese industry is being forced to restructure at a time when it is burdened by high fixed costs and high depreciation, following recent years of heavy capital expenditure and the building of new assembly capacity in Japan. It no longer enjoys the advantages it had in earlier years of an undervalued yen and cheap money. Plant closures are being forced, and Nissan's drastic move to shut its Zama car plant in 1995 is unlikely to be the last.

In contrast with the dramatic proliferation of new products at the end of the 1980s, Japanese carmakers are now having to cut the number of model variants and types of options offered, which in recent years have "proliferated excessively" according to Mr Yoshifumi Tsuji, president of Nissan.

They are seeking to use more common parts among different car models, and some are also planning to extend product life cycles - previously regarded as one of the Japanese industry's key advantages over European and US car makers.

Japanese vehicle makers are also being forced to make up for weaknesses in their product armouries by marketing cars or niche vehicles from rival makers under their own badges rather than trying to develop competing products themselves.

Loss-making Isuzu has pulled out of carmaking altogether in order to concentrate on four-wheel-drive leisure utility vehicles and trucks. Instead it will market a range of Honda cars under its badge in Japan, while Honda is planning to sell Isuzu leisure/utility vehicles under the Honda badge both in the US and in Japan. Honda also plans to sell in Japan the Rover group's UK-built Land Rover Discovery four-wheel-drive vehicle under the Honda name. Nissan and Mazda are exchanging light commercial vehicles in Japan.

The spate of deals to share both vehicles and components appears to presage a more far-reaching restructuring of the Japanese motor industry, as some of the smaller makers are absorbed into the bigger groups, as has happened already in Europe.

According to Mr Tsuji the Japanese motor industry "may now be at a structural crossroads". The rapid appreciation of the yen would appear to favour a further transfer of production abroad, but Mr Tsuji has voiced the fear that such a move could entail a "hollowing out" of industrial operations in Japan. He has warned that "the global motor industry is facing a business climate of unprecedented severity."

The Japanese vehicle makers continue, too, to face acute trade pressures as the US pushes to reduce its huge deficit in automotive trade with Japan, and the European Community seeks to restrain the volume of vehicles imported from Japan in the face of plunging new car demand in Europe.

Continued on Page 2

IN THIS SURVEY

■ Editorial production: Phil Sanders

■ SALES FORECASTS

Decade of structural change predicted

NEW car sales worldwide are expected to contract by 3.0 per cent to 33.02m this year, the second significant decline in the last three years under the impact of sharply falling demand in west Europe and in Japan.

Global sales are forecast to recover next year, however, with a 5.4 per cent rise to 34.8m. Continuing steady growth in the following years is expected to take worldwide new car sales to 41.3m by 1998 according to the latest World Automotive Forecast report by DRI, the UK-based automotive analysts.

Worldwide new car sales were virtually unchanged last year at 34.05m after peaking at 35.01m in 1990. Sales fell by 3.3 per cent in 1991 to 33.9.

Much of the growth next year is forecast to come from North America, Asia and east Europe. Car sales are already recovering in North America this year with an increase of 4 per cent to 9.55m forecast to be followed by a further rise of 6.1 per cent in 1994.

The strongest growth worldwide is expected to come from outside the leading traditional car-consuming regions of west Europe, North America and Japan, however.

While the DRI report forecasts a 21 per cent increase in global car demand from 1992 to 1998, the main impulses for this growth are expected to come from South Korea, China, Thailand, Latin America and east Europe during the rest of the decade.

"The 1990s are expected to be a decade of structural changes in the pattern of global car sales towards newly developing markets," says DRI. The US is already a mature market where new car sales are increasingly a function of replacement demand, and the same will be true of west Europe by the end of the decade.

The DRI report claims that the best prospects are in Asia-Pacific, where the density of car ownership is still low, and strong economic development is leading to rising disposable incomes.

New car sales in China more than doubled in 1992 to 321,000 from 145,000 in 1991, and sales are expected to triple in the next six years to reach 1.05m by 1998. A similar development is forecast for Thailand with sales jumping to 540,000 by 1998 from 121,000 last year and 66,000 in 1991.

Latin America and east Europe also offer good growth prospects, says the report. By the mid-1990s, the Latin America is expected to be more than 2m, nearly double the level of the mid-1980s.

As east Europe develops and used car imports fall away, new car sales in the region are expected to grow by over 50 per cent in the next five years to 2m a year.

The Asia/Pacific region (excluding Japan) is also expected to be the main focus for growth in car production for the rest of the 1990s with output set to jump from 3.25m last year to 4.81m in 1998. China will account for a large part of the increase with production forecast to rise from 171,000 last year to 950,000 in 1998.

After falling steeply for the last three years, car output in east Europe is forecast to recover strongly for the rest of the 1990s with production increasing from the low point of 1.47m last year to reach 2.65m by 1998.

The growth in newly developing markets has been unable to compensate in recent years, however, for the downturn in demand in the main industrial countries. The long upward trend in worldwide new car sales, was halted at the end of the 1980s and the beginning of the 1990s first by the fall of demand in the North American market and then by declining sales in Japan and now in west Europe.

West European new car sales are forecast to fall by 16 per cent this year to 11.3m from 13.5m in 1992. The outlook for next year is also gloomy with the prospect of only a minimal recovery.

The decline in west Europe in 1993 will be steeper than during the recession following the first oil crisis in the early 1970s. Sales in Germany, the single largest market in Europe, are forecast to plunge by 22 per cent, with demand expected to fall by 21 per cent in Italy, 26 per cent in Spain and 16 per cent in France.

The only market in west Europe that is showing any growth is the UK, albeit from a very depressed level after three years of recession, with sales forecast to rise to 1.77m from 1.59m in 1992.

There is little prospect of any sustained recovery in 1994 with sales in west Europe forecast to rise by only 2.9 per cent next year to 11.66m. Modest increases in demand in the UK, France and Spain are expected to be offset by further small declines in Germany and Italy.

West European car production in the UK is set to fall by 2m vehicles or 15 per cent this year to 11.4m from 13.4m in 1992, says the DRI report. Output is unlikely to regain the 1989 peak of 13.7m until 1996 with the start of a stronger recovery delayed until 1995.

By 1998 Japanese car production in the UK is expected to reach 800,000 cars a year

The UK is an exception, however, with output boosted by the development of the three Japanese car plants established by Nissan, Toyota and Honda. UK car production is forecast to rise from 1.3m in 1992 to a record 2.1m in 1998.

By 1998 Japanese car production in the UK is expected to reach 800,000 cars a year – accounting for around 37 per cent of total British car output and allowing the UK to move from fifth to third place in the European production league ahead of Spain and Italy.

Japanese carmakers have fallen under unaccustomed pressure in their domestic market, where sales this year are suffering an unprecedented third successive annual decline. The DRI report forecasts a six per cent drop this year to 4.19m following declines of 8.5 per cent in 1992 and 4.6 per cent in 1991 from the peak of 5.1m cars sold in 1990.

Car production in Japan is expected to fall this year by 6.7 per cent to 8.75m from 9.4m last year and the peak of 9.95m in 1990. The impact on production of weak domestic demand has been compounded by lower exports. Shipments from Japan are being affected by the increase in Japanese carmakers' overseas production in particular in North America and in Europe, and also by the weakness of demand in Europe.

The Japanese car industry is in the lead in taking advantage of growth elsewhere in the Asia-Pacific region, however, and shipments to other Asian countries, led by China and Thailand, are becoming much more important in terms of volume.

Japanese manufacturers "will generally be looking to increase output in locations outside of high-cost Japan, certainly as far as supplying exports markets is concerned," says DRI. "At the same time, domestic market demand will grow only modestly in the medium-term."

In the US, fragile consumer confidence continues to threaten the pace of recovery from recession, but car sales are rising again in 1993 after four years of decline. Car sales (excluding light trucks) are forecast to rise by around five per cent to 8.79m in 1993 but will still be nearly 3m units below the 1986 peak.

The US light passenger vehicle market has been marked more and more by the American fondness for light trucks, however, with four-wheel drive leisure/utility vehicles, mini-vans (known as multi-purpose vehicles or MPVs in Europe), and pickups increasingly substituting for family saloon cars.

US light truck sales are expected to jump by 14 per cent this year to 5.3m units, easily surpassing the previous peak of 4.8m in 1988. While annual car sales are forecast to rise by only 1.1m units from 1992 to 1998, light truck sales are predicted to jump by more than 1.4m in this period to exceed 6m by 1998.

DRI World Automotive Forecast Report, DRI McGraw-Hill, Wimbledon Bridge House, 1 Hartfield Road, London, SW19 3RU. Price £3,000.

Kevin Done

WORLD CAR SALES FORECAST (000s)

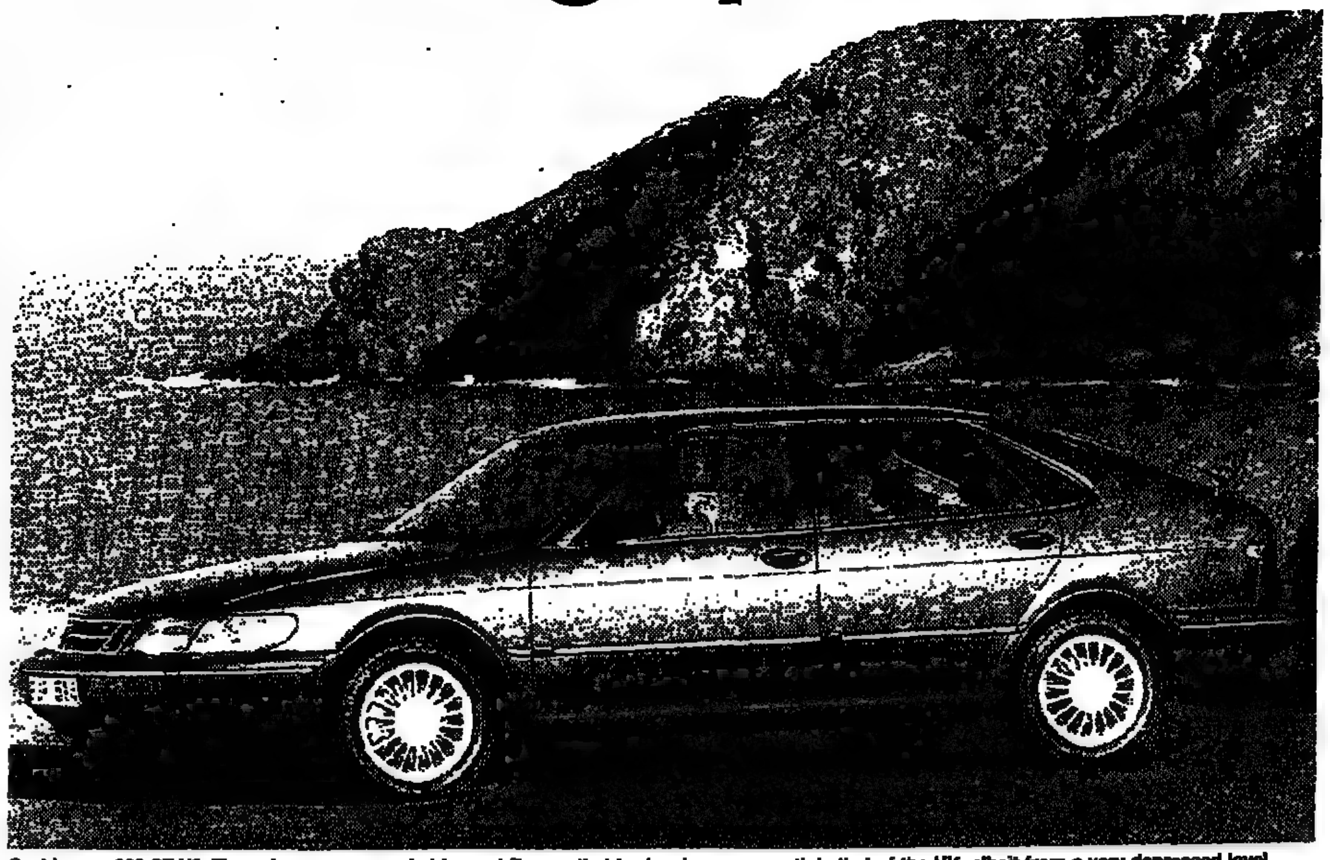
	1992	1993	1994	1995	1996
WORLD TOTAL	34,050	33,015	34,803	35,467	38,521
West Europe total	13,494	11,394	11,698	12,459	13,389
EC total	12,807	10,542	10,665	11,596	12,406
Germany	3,929	3,063	3,001	3,128	3,310
Italy	2,374	1,866	1,795	1,932	2,052
France	2,105	1,776	1,859	1,965	2,114
UK	1,593	1,758	1,889	2,061	2,187
Spain	979	720	812	925	1,052
East Europe**	1,220	1,186	1,316	1,472	1,630
North America total	9,181	9,550	10,136	10,134	10,423
US	8,383	8,790	9,242	9,124	9,378
Japan	4,454	4,192	4,287	4,459	4,617
Asia Pacific total†	2,449	3,015	3,390	3,753	4,052
South Korea	830	929	1,016	1,096	1,118
China	321	489	520	576	726
Thailand	121	245	368	485	542
Latin America total	1,561	1,843	1,881	1,930	2,053

WORLD CAR PRODUCTION FORECAST (000s)

	1992	1993	1994	1995	1996
WORLD TOTAL (net)*	34,749	33,687	35,263	36,981	39,116
West Europe total	13,376	11,385	11,773	12,632	13,711
EC total	13,061	11,104	11,453	12,282	13,361
Germany	4,863	3,736	3,690	3,794	4,046
France	3,326	2,859	2,869	3,037	3,251
Spain	1,790	1,531	1,645	1,845	1,968
Italy	1,476	1,168	1,313	1,451	1,587
UK	1,291	1,428	1,524	1,636	1,901
East Europe**	1,470	1,590	1,920	2,200	2,420
North America total	6,957	7,497	7,827	7,961	8,106
US	5,937	6,152	6,562	6,712	6,810
Japan	9,378	8,753	8,873	8,987	9,222
Asia Pacific total†	2,249	2,755	3,325	3,733	4,184
South Korea	1,242	1,456	1,751	1,909	2,065
China	171	263	369	487	646
Thailand	104	220	309	375	449
Latin America total	1,814	2,161	2,221	2,292	2,420

*Excluding traceable double counting. **Including Commonwealth of Independent States. Excludes Japan.†

Source: DRI World Automotive Forecast Report - August 1993.



Saab's new 900 SE V6: The only new cars market in west Europe that is showing any growth is that of the UK, albeit from a very depressed level

■ EUROPE IS THE MAIN BATTLEGROUND

Fight for survival has never been so fierce

Continued from Page 1

Faced by the accelerating contraction of the west European market the established European producers have clamoured for intervention by Brussels to renegotiate Japanese import levels.

"The agreements between the European Community and Japan are not enough," said Mr John Hardiman, until last month chief executive of Ford of Germany. "We are deeply dissatisfied... We are demanding that Brussels sets Japanese export quotas exactly in line with the actual development of the market... You do not have to be a prophet to foresee that the goal of orderly adjustment and a far-reaching restructuring of the European auto industry cannot be reached by 1999."

The real challenge is not so much the Japanese imports, however, as local Japanese production in Europe, where Nissan, Toyota and Honda are already showing that they can reach Japanese levels of quality and efficiency with European (British) workforces, albeit in new plants and with new labour agreements.

In west Europe the plunge in new car demand has been precipitous. Carmakers are facing an even steeper decline in sales than occurred in the wake of the first oil crisis in the early 1970s. Sales across 17 markets in west Europe have fallen by an estimated 17.7 per cent in the first seven months of the year with 1.5m fewer new cars sold than in the same period a year ago.

The most damaging falls have occurred in some of the biggest European markets with sales in the first seven months dropping year-on-year by 21 per cent in Germany, 24 per cent in Italy, 17 per cent in France and 28 per cent in Spain. Only the UK, of the larger markets, has achieved any growth, with sales rising by 9 per cent, albeit from a very depressed level after three years of recession.

Large parts of the European industry have been forced on to short-time working. The European auto industry's workforce is being drastically pruned, components suppliers are being squeezed harshly to cut prices, and as overcapacity grows, companies are being forced to rationalise and restructure.

In an uncanny reflection of the earlier fate of General Motors in the US, the Volkswagen group, the dominant leader of the European market, has crashed heavily into the red with a DM1.6bn loss in the first six months of 1993. Ford of Europe will run up a third consecutive annual loss this year, Fiat's car and light commercial vehicle operations suffered an operating loss of L544bn ($339m) last year and their financial performance has deteriorated further this year, while Renault's pre-tax profits plunged by almost 90 per cent in the first six months this year.

The fight for survival in the global car industry has never been so fierce, and the tensions have broken the surface in unprecedented fashion in the ugly, bare-knuckle conflict between GM and VW over the US carmaker's allegations of industrial espionage and the theft of thousands of highly confidential documents during the departure of Mr José Ignacio Lopez de Arriortúa, its former global purchasing director, to become Volkswagen's head of production and purchasing.

What started as a bizarre tug-of-war over the services of Mr Lopez has developed into a full-scale public battle

What started as a bizarre tug-of-war over the services of Mr Lopez has developed into a full-scale public battle between two of the world's biggest industrial corporations, which still threatens unpredictable consequences both for Volkswagen and for Mr Lopez and Mr Ferdinand Piëch, the aggressive and autocratic former head of Audi, who took over as chief executive of the beleaguered VW group at the beginning of the year.

The Lopez saga, which has mesmerised the world auto industry, reached a fresh climax two weeks ago with the raid by police and German public prosecutors on the Volkswagen headquarters in Wolfsburg. VW has already admitted that GM documents have been shredded at one of its Wolfsburg premises. The espionage allegations are also being investigated by the US justice department.

The bitterness of the conflict between GM and VW has prompted interventions by German Chancellor Mr Helmut Kohl and German Economics Minister Mr Günter Rexrodt, in an effort to contain the damage - but to little avail.

Mr Piëch added fresh intensity to the conflict by accusing Opel, GM's German subsidiary of mud-slinging and conducting an international war against VW and Germany. He suggested that GM/Opel may have hacked into VW's computers to plant secrets there. In return GM Europe has described the Piëch attacks as "grotesque" and said the VW chief executive's war-like words suggested a "psychosis-like bunker mentality."

Mr Piëch has claimed publicly that he is engaged in nothing less than a mission to save the European auto industry and that Mr Lopez shares the same messianic vision. His burning determination to bring the Spanish engineer from GM to VW was not to be resisted.

The Lopez investigations are diverting top management attention from the central issue of rescuing VW from its uncomfortable postion as the highest cost volume carmaker in Europe.

Mr Piëch has placed the blame for VW's precipitous collapse into loss firmly on the group's previous management, with the onset of recession blamed only in passing.

"The VW group's current difficulties can only be blamed in small part on the weakness of new car sales – and the same is true for other German manufacturers," he says. "The real cause is much more the structural problems of the entire sector, which are now being openly exposed by the recession.

"We have to accept that in the eight years of booming sales we did not do our homework. Because as soon as sales fall we are in the red. Our task for the coming years is to come to grips with this structural transformation.

The heat is most intense in Germany, where vehicle makers were cushioned initially by a surge in sales

"In eight years of boom we concentrated exclusively on expansion and we did not prepare for bad times. We should break even with our plants working at 70 per cent or less of capacity. We came into this crisis with a break-even level of around 100 per cent of capacity. From 1989 our sales volumes grew every year and our profits shrank every year."

Competitive pressures are being felt throughout the European auto industry as it moves uncomfortably through the seven-year transitional period to a west European car market, where all protection against Japanese imports is supposed to have been removed by the end of the decade. The heat is most intense in Germany, however, where vehicle makers were cushioned initially by the surge in sales that followed reunification. This delayed the start of restructuring.

The German automotive industry must shed a further 100,000 jobs and cut costs by between 20 and 30 per cent in the next two years Mr Achim Diekmann, chief executive of the German Automobile Federation, warned recently. German vehicle and component makers had already cut 95,000 jobs in the two years to the end of June, he said.

High costs in Germany have played an important role in decisions by both BMW and Mercedes-Benz to develop new plants for passenger vehicles in the US, and German components manufacturers are also increasingly moving capacity abroad.

In a stunning departure from corporate tradition Mercedes-Benz, the world's most prestigious luxury car maker, has embarked on "a very extensive realignment of its strategic product policy". Mr Helmut Werner, who took over as chief executive in May, admitted earlier this year that Mercedes-Benz's present luxury and executive cars were "over-engineered", and said that the company would end up being "priced-out" of world markets if it persisted with such a policy for developing new models.

As the battle in Europe to restructure and to become globally competitive intensifies, the industry faces the growing problem of overcapacity which is "a major strategic concern" for all carmakers in Europe according to Mr Jacques Nasser, chairman of Ford of Europe. Ford does not expect new car sales in west Europe to return to the trend level of 1990/91 until the late 1990s. "The potential for excess capacity in the mid to late 1990s will be around 7m units," Mr Nasser warned recently.

This amount of overcapacity would pose "severe structural problems" for the European auto industry, which would be compounded by a rising market share gained by Japanese carmakers. This "may result in continued losses or severely depressed profitability for many manufacturers."

As the Japanese build up their local production capacity Europe has become the main battleground in the world auto industry.

■ EUROPE

Intense international battle looms

Falling sales and excess capacity mean that producers must take drastic measures in the race to regain global competitiveness

EUROPE has become the battleground of the world motor industry in the 1990s. As demand for cars has nosedived across the continent, the failure of some European carmakers to put their houses in order during the recent years of strong sales has become glaringly apparent.

The race to regain global competitiveness is intense – the frontiers of the European car market will be thrown fully open to Japanese import competition by the end of the decade. Japanese carmakers are already establishing a growing local production presence in Europe.

Large parts of the European industry have been forced into short-time working. The European car industry's workforce is being drastically pruned. Components suppliers are being squeezed harshly to cut their prices. As overcapacity grows, companies are being forced to rationalise and restructure.

● Ford of Europe, once the Ford group's main profit generating machine worldwide, has racked up losses of more than $2bn in the past two years.

It was exposed earlier than its rivals by the long-lived recession in the UK, its biggest market in Europe. Ford has already conceded that it will remain in loss in Europe in 1993 for a third successive year, despite tough steps begun late last year to restructure.

Ford is cutting the workforce of its European automotive operations (excluding Jaguar) by 14.3 per cent, with the elimination of 14,400 jobs between October 1992 and the end of 1993. *The target is to reduce* the workforce to 83,000 from 97,400 over 15 months. The company acknowledges that if the European economy continues to weaken, it may have to make additional job cuts.

● *Fiat's* car and light commercial vehicle operations (Fiat Auto) plunged into an operating loss of L544bn (£229.72m) last year after a three-year slide from an operating profit of L2,362bn in 1989.

With its domestic market share in Italy under heavy attack, and falling market

At the end of last year orders in most European car markets suddenly began to shrink

share across Europe, Fiat Auto had been forced to start cutting production by late 1990. It eliminated output of 259,000 vehicles in 1991, 230,000 last year and 173,000 in the first six months this year alone. Its workforce has been reduced from 133,431 in 1989 to 125,378 last year.

● *The Renault group of France* managed almost to double its annual profits in 1992 and then to fall into loss in the final quarter, *pushed down* by the turmoil in the European currency markets, its share of losses at its partner Volvo, and the losses of its truck operations.

● The most serious problems have emerged in Germany, however, where Volkswagen, the group which has led the west European market in terms of sales volumes for the past eight years, crashed badly into loss in the final quarter last year. *After* making a pre-tax profit of DM1.2bn in the first nine months last year, it fell into a pre-tax loss of DM563m in the final quarter and has followed this with a DM1.6bn loss in the first six months of 1993.

In Europe, the rot set in during the final months of last year, as orders in most European car markets suddenly began to shrink and carmakers were left with bloated stocks and plants turned out cars for which there were no customers.

According to James Capel, *the UK financial analysts*, "the first quarter of 1993 has been the worst period for earnings (in the European car industry) since the early 1980s and possibly for a period much longer than that". There was no *improvement in car demand in* the second quarter.

During the second half of the 1980s, new car sales in west Europe bounded from one record year to another, with sales jumping from 10.17m in 1984 *to 13.47m* in 1989. For another three years from 1990 to 1992 demand held steady, near the record level of 13.5m.

Beneath the deceptively calm surface, however, all was not well; demand began to diverge wildly in the important markets. Sales in the UK, with the early onset of recession, slumped by a third from the 1989 peak. Sales faltered also in France. These setbacks were more than compensated for, however, by the unprecedented surge in new car sales that took place in Germany, Europe's biggest market, in the wake of unification of the country's east and west.

Carmakers – most of all the Volkswagen group, which controls about 28 per cent of the German market – were able to surfboard on the rising wave of demand in Germany, where the car market surged from 2.8m in 1989 to 4.2m in 1991 and 3.9m last year.

But the German market, the driving force in Europe, has moved alarmingly into reverse this year, and its fate has been shared elsewhere. Excepting only the UK, new car markets across western Europe have seriously shrunk in the first half of 1993.

Nearly 1.3m fewer new cars were sold in west Europe in the first six months this year than in the corresponding period of 1992, as demand plunged by 17.2 per cent to around 6.1m according to industry estimates.

In July sales dropped by around 20.1 per cent further intensifying the already steep decline suffered in the first half of the year. West Europe is experiencing its sharpest fall in new car demand for more than a decade, with sales in the first seven months drastically lower than a year ago in 16 of 17 markets.

The only significant gain has come in the UK with a rise of 9.1 per cent in the first seven months, albeit from a very depressed level. In Germany sales in the first seven months fell year-on-year by 20.6 per cent, in Italy the decline was 23.6 per cent, in France 17.1 per cent and in Spain 27.7 per cent.

Leading carmakers' latest forecasts suggest that sales could fall as low as 11.4m in the full year.

All carmakers in Europe are under fierce pressure. Only the UK's Rover group, a subsidiary of British Aerospace, is increasing its European sales in spite of the serious decline in the overall market.

The German industry is feeling the heat most intensely. By far the most powerful in Europe, the German car industry had rested on its laurels for too long. Now it is finding that a bloated cost-base has made it disturbingly uncompetitive not only against Japanese carmakers but also against its European rivals.

"Production costs in Germany are too high," says Mr Erika Emmerich, president of the German auto federation. "The cause is labour costs as well as energy, transport and environmental costs. Working hours are shorter than in the auto industries of most other countries. And corporation tax is higher than in our most important competing countries."

Based on exchange rates last December German carmakers had total wage costs of DM47 per hour, two-thirds higher than the average of DM28.3 in the rest of Europe, and 37 per cent higher than in the US and Japan at DM34.4 per hour. German car workers clocked up only 1,483 hours in 1991 (the latest figures available), a third less than the 2,181 hours worked by a Japanese car worker, and 27 per cent less than their counterparts in the US at 2,022 hours. German annual working hours are also well below the UK (1,830 hours), France (1,608) and Spain (1,654).

According to Mr Ferdinand Piëch, the beleaguered chief executive of Volkswagen, the group's current difficulties "can only be blamed in small part on the weakness of new car sales – and the same is true for other German manufacturers.

The cause is rather the structural problems of the entire sector, which are now being openly exposed by the recession.

"We have to accept that in the eight years of booming sales we did not do our homework. Because as soon as sales fall we are in the red," he says.

Intent on expanding its sales and market share at the expense of cutting fat from the organisation and keeping costs under control, Volkswagen, the European market leader, has become the continent's highest

Components suppliers are being put under severe pressure to cut prices

cost producer.

French carmakers have a 30 per cent cost advantage over *the group*, says Mr Piëch, and the Japanese a lead of 25-30 per cent.

Jobs are being cut. Last year's 7,500 reduction at VW's six domestic German plants is to be followed by a cut of about 15,500 in 1993 and 1994. The workforce at these plants will cut to 100,000 by the end of 1994.

Worldwide the group, which includes Audi, Seat and Skoda, is cutting at least 33,000 jobs in 1993/94 to 240,000.

Capital investments are being drastically reduced with a halving of planned spending across the group and a virtual halt on investment at Audi and Seat for the second half of the year.

Components suppliers are being put under severe pressure to cut prices with some reporting demands for cuts of up to 30 per cent over the next three years.

Volkswagen is not alone in having to resort to such drastic measures. In a stunning departure from corporate tradition *Mercedes-Benz*, the world's most prestigious luxury carmaker, is re-thinking the whole way it does business with an "extensive realignment of its strategic product policy" led by Mr Helmut Werner, who took over as chief executive in May.

He admitted earlier this year that Mercedes-Benz's present luxury and executive cars were "over-engineered", and said that the company would end up being priced out of world markets if it persisted with such a policy for developing new models.

Mr Werner said the only way Mercedes-Benz could maintain *its engineering and quality* leadership, was if it could also achieve cost leadership. Gone were the days, when the charging of premium prices could cover for an uncompetitive cost-base. "No one in the world is prepared to pay for German complacency on the cost front," said Mr Werner.

About 13,000 jobs were cut by Mercedes-Benz last year in Germany (at its car and commercial vehicle operations) reducing the workforce from 225,000 to 212,000 by the end of 1992. Another 14,500 jobs are scheduled to be cut in the next two years.

More vehicle assembly is being moved outside Germany *to locations* such as Mexico, South Korea and Spain. Mercedes-Benz is also following BMW to the US, where both groups are building their first passenger vehicle assembly plants.

The pain of recession in Europe is being exacerbated by the building of additional plant capacity across the continent. The new facilities were planned as west European car producers were still basking in the years of successive annual sales records. European producers are bringing into production plants with a capacity for about 1.5m vehicles a year between mid-1992 and the end of 1994, although VW has delayed part of its expansion in eastern Germany.

Japanese vehicle makers are expected to have built a capacity in Europe for about 1.2m vehicles a year by the end of the decade.

"The whole industry but European manufacturers in particular have to face one particularly severe international challenge. This is worldwide overcapacity," says Mr Bruno Adelt, executive vice-president of the Volkswagen brand division. "For the remainder of the 1990s we estimate this at more than 10m vehicles... *Excess capacities in Europe* will greatly increase, competition will be tougher and above all pressure to sell at lower prices will increase dramatically."

Kevin Done

WEST EUROPEAN NEW CAR REGISTRATIONS
January-July 1993

	Volume (Units)	Volume Change(%)	Share (%) Jan-Jul 93	Share (%) Jan-Jul 92
TOTAL MARKET	7,001,000	-17.7	100.0	100.0
MANUFACTURERS:				
Volkswagen*(incl. Audi,SEAT&Skoda)	1,170,000	-22.5	16.7	17.8
General Motors (Opel/Vauxhall, US# & Saab)	897,000	-14.4	12.8	12.3
– Opel/Vauxhall	862,000	-14.0	12.3	11.8
– Saab**	23,000	-30.8	0.3	0.4
Peugeot (incl. Citroen)	840,000	-17.4	12.0	12.0
Fiat (incl.Lancia, Alfa Romeo,Ferrari Innocenti,Maserati)	801,000	-25.5	11.4	12.6
Ford (Europe, US# & Jaguar)	792,000	-18.3	11.3	11.4
– Ford Europe	786,000	-18.3	11.2	11.3
– Jaguar	6,000	-6.1	0.1	0.1
Renault††	741,000	-17.6	10.6	10.6
Nissan	243,000	-8.5	3.5	3.2
BMW	230,000	-18.5	3.3	3.3
Mercedes-Benz	193,000	-27.4	2.8	3.1
Toyota	192,000	-2.3	2.7	2.3
Rover†	191,000	+10.5	2.7	2.0
Mazda	125,000	-27.7	1.8	2.0
Volvo††	99,000	-23.3	1.4	1.5
Honda†	96,000	-13.3	1.4	1.3
Mitsubishi	90,000	-13.8	1.3	1.2
Total Japanese	863,000	-12.5	12.3	11.6
MARKETS:				
Germany	2,016,000	-20.6	28.8	29.9
Italy	1,241,000	-23.6	17.7	18.1
France	1,007,000	-17.1	14.4	14.3
United Kingdom	874,000	+9.1	12.5	9.4
Spain	467,000	-27.7	6.7	7.6

#Cars imported from US and sold in western Europe.
*VW holds 31 per cent and management control of Skoda.
**GM holds 50 per cent and management control of Saab Automobile.
†Honda holds a 20 per cent stake in Rover vehicle operations.
††Renault and Volvo are linked through minority cross-shareholdings.

Source: Industry estimates

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■ THE JAPANESE IN EUROPE

Tensions with the EC are growing

Painful negotiations are again under way between Brussels and Tokyo over the levels of Japanese exports

THE rapid development of Japanese carmakers' production capacity in Europe is coinciding alarmingly with a steep downturn in west European new car sales.

Inevitably tensions are growing between the European Community and Japan, as European carmakers face a growing burden of overcapacity and in many cases mounting losses.

Painful negotiations are again under way between Brussels and Tokyo over Japanese export levels, as some European carmakers seek sharp cuts in Japanese vehicle shipments to the EC and call for restraints to be placed on the level of Japanese production in Europe.

Under the terms of the controversial understanding reached by the European Commission and the Japanese Government in 1991 – the so-called "Elements of Consensus" – there were to be "no restrictions on Japanese investment or on the free circulation of its products in the Community".

At the same time, however, Tokyo undertook to avoid "market disruption by exports from Japan", and to monitor the level of its exports for seven years to the end of 1999. *The seven-year transitional* period was to allow EC carmakers to adjust "towards adequate levels of international competitiveness."

The vaguely-worded 1991 understanding, which itself was only reached after months of tortuous negotiations, had always threatened to be a minefield to administer from the moment it came into force at the start of this year.

But Brussels and Tokyo could hardly have bargained with the enormity of the problem they now face in the first year of the monitoring system: a plunge in the west European car market steeper than that suffered in the wake of the first oil crisis in the first half of the 1970s.

In April the two sides finally agreed on a ceiling for Japanese exports to the EC of 1.089m vehicles – cars and light commercial vehicles up to 5 tonnes gross vehicle weight – for 1993, a reduction of 9.4 per cent from 1992. The reduction was based, however, on an assumed reduction of only 6.54 per cent in the EC market this year.

Even at the time the market forecast looked hopelessly optimistic, and in June the Commission was again forced to seek talks with Tokyo to try to negotiate a further reduction in Japanese exports. Another round of talks is expected to take place this month.

In the event, new car sales in the EC have plunged by 17.8 per cent in the first six months of this year, with no sign of any recovery in demand in the second half.

The downturn in west Europe's new car market could not have come at a more sensitive moment

The downturn in the west European new car market could hardly have come at a more sensitive moment, with Japanese vehicle production in Europe starting to growing rapidly. Nissan, whose European presence is most advanced, has forecast a 51 per cent rise in output at its UK plant this year, to 270,000 cars from 179,000 in 1992.

During the last 12 months Toyota and Honda have started production at their first European car plants, both located in the UK. Suzuki has started car assembly at its more modest facility in Hungary. Honda is expected to produce 32,000 cars this year at its Swindon plant in southern England, while output at Toyota's plant at Burnaston, near Derby, is expected to total 36,000 in 1993, rising to 100,000 next year.

Magyar Suzuki, which is scheduled to produce 15,000 cars this year, is planning to raise output to 50,000 by 1995. In the UK Honda has talked publicly about raising output to 100,000 by 1995, while Toyota has named 1997 as the target date for reaching a capacity of 200,000 cars a year. However, vehicle industry analysts expect both plants to raise output significantly above these levels by the end of the decade.

As output expands at these locations, Mitsubishi Motors is the next in line to start production in Europe.

It is pushing ahead with the development of Netherlands Car (Nedcar), its joint venture with Volvo of Sweden in which a one-third stake is also held by the Dutch government.

Mitsubishi and Volvo are investing heavily in NedCar – it is currently included in the Volvo 400 small family car series – for the development of a new range of cars to be launched in 1995/96. The capacity of the plant at Born in the Netherlands is being doubled to 200,000 a year. The output of 160-200,000 cars a year will be shared equally between Mitsubishi and Volvo.

NedCar says that about Fl 3bn is being invested in the development of the cars and the plant, of which Fl 2.1bn will be financed by the present shareholders and the remainder financed externally. The training of several hundred NedCar employees at Mitsubishi's Mizushima plant in Japan is already beginning this autumn.

Above all, the Japanese car plants are having a big impact in the UK, where they already account for more than a fifth of British car production.

DRI, the UK-based automotive analysts, forecast that the car output of Nissan, Toyota, Honda and Mitsubishi in west Europe, will grow from 326,000 this year to 993,000 in 1998. At the same time the share of Japanese makes of car in the west European new car market is forecast to grow from 11.9 per cent last year to 15.5 per cent by 1998.

The Japanese vehicle manufacturing presence in west Europe also includes several other ventures: Nissan Motor Iberica and Suzuki's Santana-Motor in Spain; IBC Vehicles, Isuzu's joint venture with General Motors in the UK, as well as Daihatsu's joint venture with Piaggio in Italy to produce small microvans; and the production under licence of Toyota pick-ups by Volkswagen in Germany. In Italy, Bertone produces a small volume of four-wheel-drive vehicles, called the Freeclimber, based on the Daihatsu Sportrak but powered by a BMW engine.

Suzuki announced that it was being forced to abandon its planned venture with Seat

The production of four-wheel-drive leisure/utility vehicles has proved an attractive niche for the Japanese carmakers in Europe, as these vehicles become increasingly popular as substitutes for cars.

In the UK, IBC Vehicles produces the Opel/Vauxhall Frontera, *a four-wheel-drive* vehicle based on Isuzu technology. Frontera output is forecast at 42,000-45,000 this year. In Spain, Santana-Motor produces the small Suzuki Vitara four-wheel-drive vehicle with an output of 32,515 last year, while also in Spain, Nissan production includes the Terrano II leisure/utility vehicle – also sold as the Ford Maverick.

Despite this rapidly growing presence, it has not all been plain sailing for the Japanese carmakers in Europe. In July Suzuki announced that it was being forced to abandon its planned venture to produce a small car in collaboration with Seat, the Spanish subsidiary of Volkswagen. The project was well advanced, with production already set to start in 1995, scheduled to rise to 150,000 a year.

For Mazda, several years of negotiations – including talks with Ford and Saab – have ended in frustration; it has been unable to find a joint venture partner in Europe. Mazda is left as the only one of the leading Japanese carmakers with no firm strategy for European production.

Nissan, too, has run into expensive problems in Spain, where Nissan Motor Iberica is accumulating heavy losses – they total Pta14.37bn ($116m) in the whole of 1992, and a further Pta11.1bn ($89.7m) in the first three months of this year alone. It has already been forced to inject Pta5.023bn ($40.5m) in new equity capital into the company so far this year, and expects to have to inject a further Pta10bn during *the next 12 months.*

At the same time, there are signs that the Japanese carmakers will very quickly become just as vulnerable to recession in Europe as their long-established rivals. Already, Nissan has been forced this year to cut production in the UK of its Primera large family car, in response to falling sales across Europe. It has also had to stop overtime work at the plant.

Kevin Done

Honda is expected to produce 32,000 cars this year at its Swindon factory in southern England. This is the company's first European car plant

■ PRICING

EC Commission sweeps away fog of confusion

To consumer groups' chagrin, manufacturers' commercial polices were not criticised

IN July the EC Commission blew away another big patch of the fog of confusion and suspicion which has long surrounded manufacturers' new car pricing structures within the EC, writes **John Griffiths**.

It did so by requiring manufacturers to publish their first pan-European price lists, showing what similar models cost in individual EC states.

The Commission's declared aim in causing the lists to be published – at six-monthly intervals and with the next to be based on November 1 prices – is to "improve price transparency" for consumers wanting to shop around the EC for the best bargains available.

The motor trade and industry is allowed to operate its exclusive dealer systems

For consumer groups which had long claimed that prices in some countries, notably the UK, were too high, the first list – and the Commission's comments on it – did not quite vindicate their stance.

The list showed that some big differentials do exist. However, while there were isolated cases of variations of more than 40 per cent, most were either within or not far outside the EC's own guidelines. These state that maximum price differentials should not vary by more than 18 per cent in the short term and by more than 12 per cent over a longer period.

To the consumer groups' chagrin, the Commission identified exchange rate fluctuations as being a big factor in the divergences and refrained from criticising manufacturers' commercial policies.

A principal contention of consumer organisations within the EC is that the motor industry is using its restricted distribution system – employing exclusively franchised dealers – to stifle competition. They claim that the system keeps prices higher than they would be in the case of a retailing "free-for-all" in which cars were available from almost any retailing outfit wishing to sell them, as is the case with white or brown goods.

The *motor trade and industry*, which argues strongly that the complexity and safety aspects of cars require a specialised sales and service system, is allowed to operate its exclusive dealer systems under a *specific* block exemption from normal Treaty of Rome competition rules.

However, its current exemption from the rules expires in June 1995 and the Commission has indicated that, after making due allowance for exchange rate changes, it does expect to see its guidelines more strictly observed if the industry wants the exemption renewed.

For that reason, in many ways the second list in November will be more important than the first list in providing the first clear-cut figures on price differential trends.

The first list reflected prices, as of May 1, of 55 European and 17 Japanese models. They were – and will continue to be – based on recommended retail prices, adjusted for equipment differences and given in local currencies both before and after tax.

Supplements for options such as air conditioning and power steering are given, as well as the premium for right-hand-drive models for the UK market.

An index of differentials is arrived at by converting local currency prices into European Currency Units (see chart).

Continued on Page 5

EC Europe Retail Price Comparison as at May 1st 1993

	Belgium	Germany	Spain	France	Italy	Eire	Lux	Nethlds	Portugal	UK
Fiat Cinquecento 900	111	126	100	124	103	-	108	116	114	116
Renault Clio RL 1.2	117	124	102	120	100	113	117	118	102	116
Opel Corsa 1.4 3dr	119	133	101	122	101	105	119	121	100	124
Ford Fiesta 1.1CLX	120	129	107	126	100	112	120	123	112	122
VW Polo Fox	125	147	112	131	100	138	128	146	132	135
Nissan Micra 3dr	110	115	100	113	102	110	110	107	109	107
VW Golf CL 60PS 5dr	120	122	113	118	100	117	115	118	115	132
Opel Astra 1.4 5dr	116	124	108	116	101	103	115	116	100	115
Nissan Sunny 1.4LX 4dr	102	109	-	102	-	100	102	100	106	112
Opel Vectra 1.6 4dr	126	132	118	122	111	113	126	123	100	118
Ford Mondeo 1.6CLX	118	124	102	112	100	100	118	108	109	104
Honda Accord 2.0LS 4dr	110	109	109	-	102	-	110	100	-	108
Audi 80 115PS	116	124	114	127	100	125	116	120	-	115
BMW 316i 4dr	106	111	105	113	100	102	111	110	117	106
Mercedes 200E	108	106	110	105	100	101	111	106	115	100
BMW 730i V8	116	120	115	122	111	111	116	119	-	100

AID Chart 93/86 Prices Indexed - lowest cost market = 100 Source: EC Commission

Commission ends confusion

Continued from Page 4

Among small cars, variations of up to 24 per cent were found – in the case of Fiat's Cincequento – between the most expensive market, France, and the cheapest, Spain.

In the large saloon category, Ford's new Mondeo 1.6LX saloon was found to be 23.9 per cent more expensive in Germany than in Italy and Ireland, the cheapest markets. At the executive car level, BMW's biggest variation was of 22 per cent, in the case of its 730i V8 model, in France, with the UK being the cheapest.

Overall, the lists showed that for 92 per cent of mini cars on the list, such as Fiat's Cinquecento, price disparities were less than 20 per cent. The differential was less than 20 per cent for 89 per cent of medium-sized family cars and 89 per cent of luxury cars. In all other market sectors except "people carriers", four-wheel-drives and sports cars (collectively averaging 69 per cent), about four-fifths fell below the 20 per cent differential level.

As regards consumer group claims that UK prices are particularly high compared with leading continental European markets, the price lists showed it to be an expensive market on some small cars, middling for many family cars – and often the cheapest market for luxury cars.

Almost certainly, the Commission *will* find a further degree of convergence.

Manufacturers and importers have, for example, been pushing down retail list prices in the UK. The fact that the lower "official" prices of themselves will have done virtually nothing to change actual transaction prices will not prevent the EC "convergence" figures looking better.

The cuts have been achieved mainly by reducing dealers' official margins,from a typical 15-17 per cent to 10 per cent. Because it is has been almost a matter of routine for dealers to give discounts of 10 per cent or more, the only real effect is to reduce their scope for discounting.

In some cases, however, the downward pressure on list prices is real.

Volkswagen, for example, is

The price lists do not take account of the discounts available in individual markets

determined to capture a larger share of the UK market, having this year taken over UK distribution from Lonrho. To help do so it has cut 11 per cent from the prices of diesel models; substantially more than the 5 per cent reduction on its dealers' margins.

And Ford, with its traditional UK market leadership now under strong challenge, was obliged by market pressure to cut prices of its Mondeo model by a real 6 per cent – the dealers' margin was already only 10 per cent – only two weeks after its launch.

Not surprisingly, the European industry has sought to make political capital out of the Commission's acknowledgment of the big role played by currency movements.

What has been demonstrated conclusively, according to the European Automobile Manufacturers' Association (ACEA), is that it is unrealistic to make meaningful price comparisons – let alone have "harmonised" prices – when some currencies have been so volatile. Between July last year and the middle of May, the main EMS currencies – German, French, Belgian, Dutch and Danish – rose 22 per cent against the lira (briefly touching 32 per cent in April), 20 per cent against the peseta, 17 per cent against sterling and 15 per cent against the Portuguese escudo.

"Manufacturers – particularly non-local manufacturers – cannot be expected to make instant double-digit price changes," the ACEA contended.

The price lists themselves have a lot of inbuilt compromises. They do not take account of the widely varying discounts available in individual markets.

And while excluding Denmark and Greece, because local taxation – of more than 100 per cent – is seen as excessively depressing pre-tax prices, Ireland, the Netherlands and Portugal are included even though national taxation in each can add 50 per cent to the cost of a new car.

In these countries, too, manufacturers have a strong incentive to keep pre-tax prices down in order for tax-inclusive prices not to be beyond the reach of ordinary consumers.

The Commission implicitly has accepted that such tax regimes in themselves are an undesirable obstacle to the convergence it is seeking from manufacturers. It has indicated that it will put pressure on the governments involved to reduce such distortions.

But if such governments are feeling such pressure, there is as yet no visible sign.

■ ROVER

British carmaker bucks the trend

THE Rover Group has achieved a rare distinction this year. It is the only sizeable car maker to have increased unit sales in continental Europe's tumbling car markets.

Its European sales rose by 10.5 per cent to 191,000 in the first seven months in the face of a nearly 18 per cent decline in the market overall.

Rover's market share has increased from 2 to 2.7 per cent. It has largely succeeded in transforming its image from an essentially failed UK state-owned leviathan to a relatively small but flexible and competent producer of cars perceived to be a cut above their mass-market rivals.


The Rover 620GSi. The 600 series is regularly matched against BMW by the motoring media

And five years after buying it – as BL – for £150m from the government, the parent company, British Aerospace became free to sell it on August 12.

With production of 405,000 cars and Land Rover, Range Rover and Discovery four-wheel-drive vehicles last year, Rover is a minor but nevertheless important player in the European market. It remains, by a small margin, the UK's biggest carmaker, although it takes second place to Ford as a vehicle maker if light commercial vehicles are included.

Its chairman, Mr George Simpson, has depicted a future for Rover in which it can be a viable, independent producer of around 500,000 vehicles a year; earning enough not just to satisfy shareholders, but to make the daunting ongoing investments required of any car maker to renew model ranges.

Even if, as some industry analysts such as Prof Garel Rhys of Cardiff Business School's Motor Industry Research Centre indicate, Rover should need higher volumes, it has the capacity to achieve them.

Rover's car plants at Longbridge near Birmingham and Cowley, Oxfordshire, with Land Rover's Solihull facility could virtually double current production with little investment and maximum multi-shift working.

Perhaps most important, it has had by far the longest and most intimate relationship of any European manufacturer with the Japanese industry which its rivals have come so much to fear.

Rover began building Honda's Ballade (under licence, as the Triumph Acclaim), in 1980. Subsequently, through joint car development programmes such as the Rover 800/Honda Legend executive cars; the smaller Rover 200/Honda Concerto and the just-launched Rover 600/Honda Accord, Rover has assimilated to good effect much of the working culture, practices and manufacturing systems which have served Japanese car makers so well in their forays into overseas markets.

Honda, now making its own cars at Swindon, has itself benefited from Rover's vehicle design expertise and there is a 20 per cent cross shareholding between Rover and Honda's UK manufacturing subsidiary.

It was little wonder, then, then that Volkswagen, in its dash to become European market leader by acquisition (SEAT and Skoda), was tipped as a leading candidate to buy Rover when the UK government's strings attached to BAe ownership were finally snipped – and after it became clear that Honda itself had no ambitions to acquire control.

Other leading manufacturers such as Ford were also assumed to be potential bidders, given what was a widespread assumption that BAe would seek an almost immediate sale, for £450-£500m, and concentrate once more on its core aerospace business.

The assumption appears to have been wrong. Not only is BAe showing no immediate desire to sell; with defence and other parts off the aerospace industry going off the boil, there are signs that Rover is itself coming to be regarded as a core business.

Nor is the current depressed European motor industry climate, particularly in Germany,

Rover remains tight-lipped about new product plans

conducive to acquisitions.

There is speculation about possible management buy-out proposals. But whether in BAe or managers' hands, "the best result could well be that Rover remains the industrial equivalent of Belgium," observes Prof Rhys.

The Rover 200/400 has already re-established Rover as a serious competitor in the lower-medium car sector. Following a £200m investment to transform production facilities at Cowley, the Rover 800 has become a market leader in the UK executive car sector. The fact that the Rover 600 is regularly matched against BMW by the motoring media provides further evidence that Rover's "upmarket" strategy is working.

A new entity, the Special Projects Division, has been formed to exploit market niches offering the prospect of high margins for relatively low investment. Cabriolet and Cooper versions of the evergreen Mini and the MG RV8 sports car are just among the first of a rash of such products over the next few years.

Production of Discovery and Range Rover models has been raised repeatedly and Rover expects to quadruple sales of these vehicles, to 16,000 units annually, in the US alone by the mid-1990s.

Meanwhile, it is indicative of the new flexibility of both production processes and Rover's 33,000 strong work force that the Cowley plant, in which Rover has invested more than £200m since 1990, is viably building, in small batches away from the main production lines, the ageing Montego and Maestro models.

Mr John Towers, Rover's managing director, makes clear that it will continue to do so for as long as demand for even a few thousand a year persists.

Inevitably, however, Rover's early heavy dependence on Honda, its extensive use of Honda engines and the Japanese maker's essentially leading role in joint car development to date has led industry observers to question whether Rover any longer has the technological as well as financial resources to stand alone.

Mr Towers grins. Across Rover's product range, he points out, a full-line product engineering capability can still be found. The Rover 200 coupe's body shell is Rover's own, albeit on an essentially Honda platform. The widely acclaimed K series engine owes nothing to Honda, and is being developed from the current 1.1 and 1.4 litre versions into 1.6 litre and V6 units which will eventually displace Honda's engine in the 200/400 and 800 ranges.

Basically what the world has not so far seen is the resurgent Rover's full technology capability brought together into one new model, he teases - but the world may not have many years to wait.

While Rover remains notoriously tight-lipped about new product plans, it plans to re-enter the sports car market with a K Series-engined MG, code-named PR3, in 1995. This, however, is to be a joint venture with Mayflower Corporation, the specialist UK engineering company, which is being contracted to design, develop and supply the body shell.

A wholly Rover vehicle is much more likely to be a replacement for the Metro, on which Rover is currently working.

A question mark remains, however, over finance. Mr Towers says Rover now is close to its target of financial break-even at 400,000 cars a year, after making startling productivity improvements - a claimed 18 per cent at Cowley so far this year - and the result of stringent cost cutting.

Analysts expect Rover to achieve a trading profit, before interest, of £30-50m this year. But with current debts of around £400m Rover would still be making a net loss. And this year's trading profit will follow two consecutive years of operating losses - £49m in 1992 and £52m in 1991.(There was a trading profit of £85m in 1990).

Mr Towers insists that it will take only a relatively modest upswing in markets for the benefits of efficiency measures to show through. Analysts tend to agree. Many expect profits, at least at the trading level, to more than double in 1994, to £90m-£100m.

John Griffiths

■ GERMANY

Carmakers focus on labour cuts

If the future seems black, the present looks even blacker

THE rejuvenation of the German motor industry is under way with a vengeance – especially at Volkswagen. The company recently concluded a deal with its workers' councils under which employees will be able to retire at 55.

For the five years until they become eligible for a normal pension, Volkswagen workers will be paid 90 per cent of their net salary: a third from the company and the rest from state employment budgets.

While this milestone agreement demonstrates the vigour with which VW is cutting its labour force in its fight to return to profit, it also shows how difficult it has become to cut the fat. Reduction of the retirement age is a costly *attempt to avoid the unthinkable*: forced redundancies. Common enough in the UK and the US, they are almost unknown in Germany's "social economy".

Almost 100,000 jobs have disappeared from the German vahicle industry in the past two years. Furthermore, according to Mr Achim Diekmann, director of the VDA industry association, another 100,000 must go by the middle of 1995. In the meantime, overall costs must be reduced by 20 to 30 per cent, he says.

If the future seems black, the present looks even blacker. The industry association is now counting on German car production tumbling from 4.86m last year to about 4m in 1993 – a drop of 18 per cent compared with springtime forecasts, considered grim at the time, of 10 per cent.

The French and Italian markets have failed to produce expected sales growth because of recession and revaluation of the D-Mark. Some German makers have increased list prices to compensate but, according to analysts, risk losing market share. Volkswagen, for example, has raised Italian prices by about 11 per cent. In Germany, too, the drop in new car registrations is markedly worse, so far, than the expected 20 per cent decline for 1993 – and now the VDA is worried that next January's 16-pfennig increase in the cost of petrol, coming at a time when disposable incomes are shrinking in real terms, will prolong the domestic downturn.

According to VW's new management, the German motor industry is fighting for its life. No-one wins such a struggle without pain and sacrifice

On top of all this, the industry is concerned about the damage to German brands' export potential which could be caused by Volkswagen's bitter set-to with Adam Opel, General Motors' German subsidiary.

But the extraordinary story of VW's seduction of GM's Mr José Ignacio López de Arriortúa, the renowned "cost-killer," and the clouds of allegations which followed him from Detroit to Wolfsburg, have tended to obscure the deep-seated restructuring going on throughout the German car industry before López arrived and unleashed his procurement "warriors" on parts suppliers.

Almost two years ago the industry at large turned its attention to what is seen as its greatest problem: cost. Whatever quality, image and engineering advantages German cars may possess, their sales prospects are hobbled by their *being 20 per cent too expensive*.

According to the VDA, labour costs per vehicle produced in France, almost the same as in Germany 10 years ago, are now about 30 per cent less than levels across the border. The German labour force was the first, obvious target for the knife, but as VW's early-retirement programme illustrates, there are limits if confrontation with the workforce is to be avoided.

But the search for economies has spread far beyond car manufacturing plants. Germany's estimated 3,000 components companies are now in the front line, confronted by demands for instant price cuts, new contracts and threats if they do not comply.

Much has been made of VW's blunt demands for 30 per cent price cuts. Two companies have already claimed that they have been driven out of business by its tactics. The survivors complain they have *already paid their* dues for the restructuring of the industry, and cite independent research by Deutsche Bank analysts which shows that between 1985 and 1992 components prices increased by only about 5 per cent, while retail prices of cars rose more than a quarter.

But however justified their appeals may be, they are caught in a deadly squeeze. As Mr López discovered at Opel – part of a multinational group with wide international contacts – there are plenty of French, Italian, British and other suppliers willing to step into any breach left by German manufacturers which fail to meet his demands. Former communist-bloc countries increasingly offer even cheaper sources for some parts.

This has not gone unnoticed elsewhere. According to industry estimates, the foreign content of an average German car is already 30 per cent, compared with 25 per cent last year. Mercedes, for example, which traditionally buys about 90 per cent of its components from German companies, is seeking to reduce the proportion to about 75 per cent.

According to *VW's new management*, the German motor industry is fighting for its life. No-one wins such a struggle without pain and sacrifice.

Christopher Parkes

■ BMW'S NEW STRATEGY

Task has been getting tougher by the day

Profits have fallen, but one famous name is managing remarkably well

Pischetsrieder: believes there is scope for closer co-operation

MR Bernd Pischetsrieder, an earnest, mild-mannered engineer who joined BMW's production planning operations straight from university 20 years ago, knew he had a tough act to follow when he was appointed this year – at the age of 45 – to succeed Mr Eberhard von Kuenheim as BMW's management board chairman.

Since May, when he first got his feet under the desk which Mr von Kuenheim had occupied for 23 years, the task has been getting tougher almost by the day. Europe's car markets continue to weaken and the deteriorating competitiveness of Germany as a manufacturing base has become ever more cruelly exposed.

Given the onset of recession in most of its important world markets since the start of the 1990s, BMW has, in fact, done remarkably well. Last year it built a record 598,000 cars – some 6 per cent more than the previous year and, for the first time, more than its rival, Mercedes-Benz. The value of sales rose by nearly 8 per cent to DM31.2bn. But operating profits fell by more than 16 per cent, to DM1.48bn. And for the first time since the mid-1980s, net profit was lower, by about 7 per cent at DM726m.

And this year, with demand problems compounded by the D-mark still riding high on the Bundesbank's reluctance to cut interest rates, the profits situation has deteriorated sharply. Net profit for the first half fell by more than one-third to DM421m. Analysts expect full-year profits of about DM500m.

Mr Pischetsrieder has also warned that there is no prospect of production matching 1992's levels. Car output in the first half was down 10 per cent at 275,000 – although this was still a much better performance than the German motor industry overall, which cut output by one quarter.

Some markets, notably North America and the UK, are on the upswing, helping to counter the continental European sales slide. BMW should also benefit substantially when its new plant at Spartanburg, in South Carolina, starts production in 1995; it is expected to be able to build cars 40 per cent more cheaply than in Germany. The plant will add 70,000 cars a year to BMW's existing 560,000 cars a year capacity in Germany. The car will be an entirely new model, thought to be a sports car, for sale throughout the world.

And an agreement just signed, under which 3-Series and 5-Series cars will be assembled in Vietnam, will also add to the – relatively minor – revenue stream from existing similar operations in Indonesia, Malaysia, Thailand and Latin America.

But in the meantime, cost-cutting and greater commonality of components, backed up by the introduction of an array of new models to broaden BMW's available market, are now at the top of the agenda in terms of reversing the fall in profits.

More jobs than the 3,500 already lost this year are likely to go as part of the process.

With the greater diversity of models, Mr Pischetsrieder intends BMW to secure a step increase in its world market share from the current level of about 1.7 per cent. He indicates that the diversity is likely to take BMW into market sectors not associated with the company since the 1960s.

The motor show now starting in Frankfurt is not expected to provide an immediate launch pad. More engine variants and extra models in the 3 and 5 series ranges are more in prospect. The company needs them, for it is about to start facing much stiffer competition from its arch-rival Mercedes' 190 replacement, now being launched. According to Mr Helmut Werner, Mercedes' chairman, some 150,000 of the new model will be made this year, rising to about 200,000 in 1994 and 250,000 in 1995.

But more radical things are on the way from BMW.

It does not exactly intend to return to producing the three-wheeled "bubble cars" which were a familiar sight on Europe's roads 30 years ago. But like Mercedes' recently-unveiled concept "city" car, the Vision A 93, BMW's similar Z13 urban runabout points the way to a possible whole new market sector for BMW in the mid-to-late 1990s.

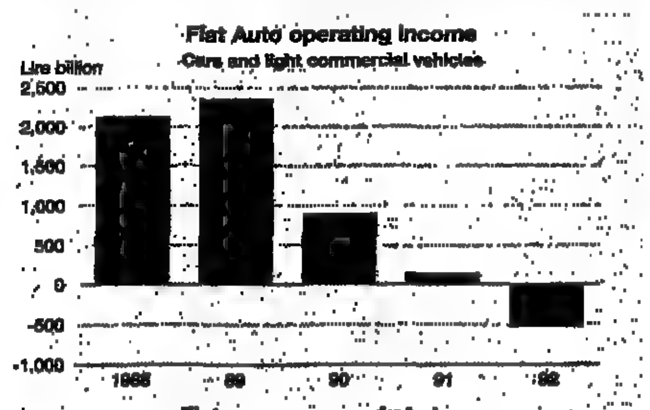
On the cost-cutting, Mr Pischetsrieder says he believes there is much greater scope for closer co-operation between European vehicle makers as well as the components industry to achieve savings. For example, he points out that it is self-defeating for individual manufacturers separately to develop complex and expensive systems to perform essentially the same task, using anti-lock braking systems developed by Alfred Teves, Robert Bosch and Mercedes as an illustration.

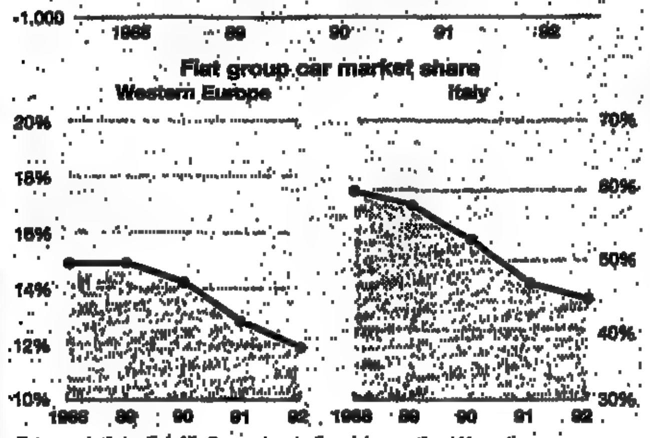
Mercedes appears to agree. Already the two companies have started their first tentative collaboration on components. "It would be ill-advised to continue to try to make everything ourselves," Mr Werner says.

Such a development marks a milestone in the history of both companies, each of which has remained among the most determinedly independent and vertically integrated of all the world's car companies.

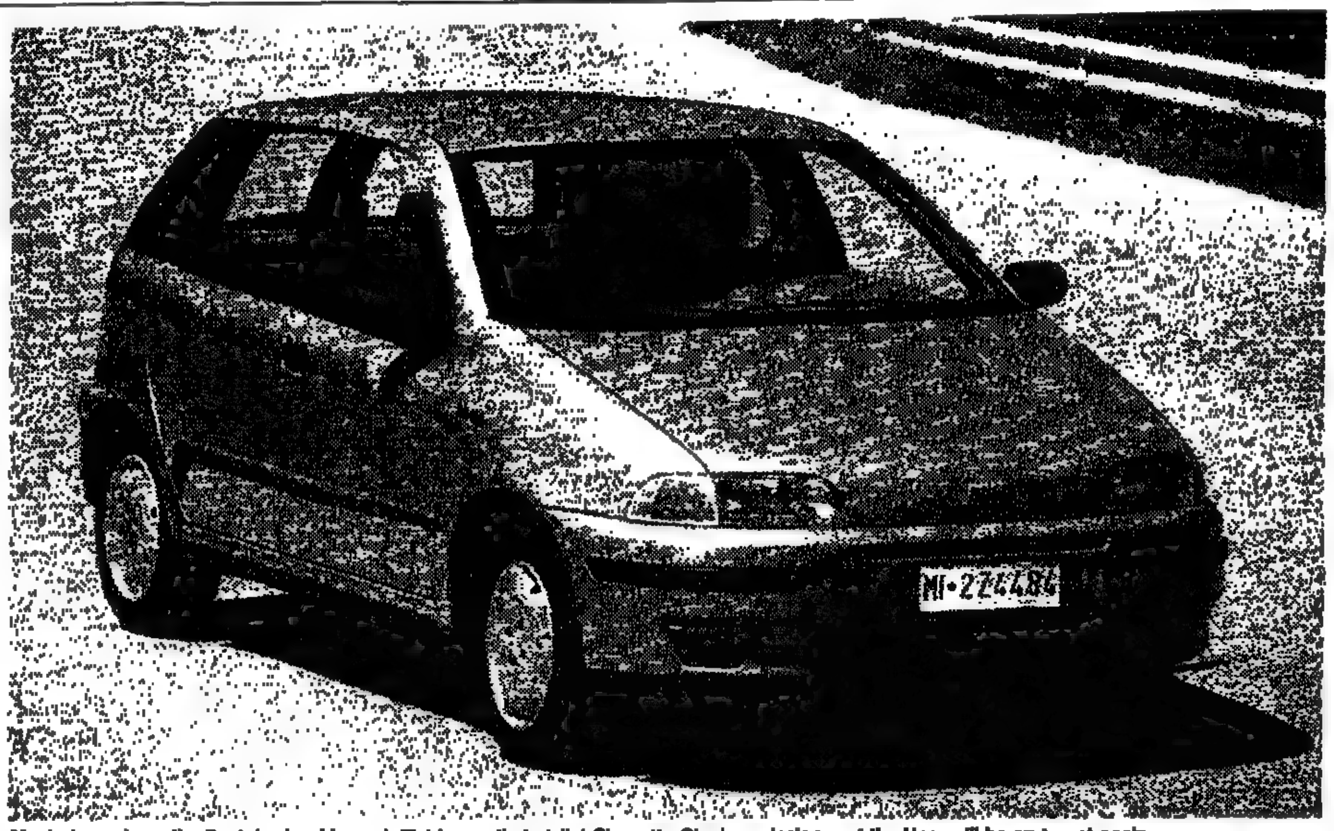
It is a measure of the severe pressures under which they, and the entire German motor industry, now find themselves. The pressures can only increase further – not go away.

John Griffiths





Fiat group includes Fiat, Alfa Romeo, Lancia, Ferrari, Innocenti and Maserati
Source: Automotive Industry Data



Much depends on the Punto's visual impact. Fiat hopes that stylist Giorgetto Giugiaro, designer of the Uno, will be on target again

■ ITALY

Why Fiat needs a winner

The Punto must match its highly successful predecessor if the Turin group is to recover the leading position from which it has slipped

ALTHOUGH austerity is becoming the watchword with Italians, they are unlikely to begrudge Fiat a PR splash in launching the Punto this month. A measured dose of ostentation and drum-beating will not be held amiss for a new car that is considered fundamental for Fiat's fortunes.

The Turin carmaker has not had much success with new models since it launched the Uno a decade ago. The Uno earned praise from journalists and won the European Car of the Year Award in 1983. But as well as being a journalists' *favourite, it was also a commercial* hit with the car-buying public.

Indeed, it continues to draw purchasers into showrooms. The Uno's appeal is such that it still heads Italian rankings of new car sales 10 years after its launch. With 146,400 sold in the first half of this year, the Uno achieved more than double the sales of its nearest rival, Ford's Fiesta.

Clearly, the evergreen Uno will be hard to follow. Yet the Punto must match its highly successful predecessor if Fiat is to recover the leading position from which it has slipped over the past five years. "The launch will represent an important milestone in the programme for the renewal of the product range," Fiat's directors told shareholders this summer.

Much depends on the Punto's visual impact. "Styling is the principal factor in car purchase in Italy," says Mr Giuseppe Gabriele, director of the car importers' association UNRAE. In involving stylist Giorgetto Giugiaro in the Punto, Fiat hopes that the designer of the Uno will be on target again.

But the new factory at Melfi, near Potenza in southern Italy, where the Punto will be produced, will also play a critical part in determining whether the Punto will be a success or not. Quality and efficiency are the keywords at Melfi.

Fiat says that its green-field factory is in the vanguard of car production and will ensure manufacturing excellence and *cost competitive products*. Flexibility and a just-in-time approach, achieved by the location of primary suppliers at the same site, are features on which Fiat is basing its hopes at Melfi.

Series production will start in January, although cars will be leaving the assembly lines from this month. When Melfi is fully on-stream its 7,000 workers will be building 450,000 cars each year.

Melfi represents total investment of L4,700bn and is part of a major capital expenditure programme. Fiat's capital spending in the car sector amounted to L3,920bn last year on net revenues of L27,450bn, a sharp increase on 1991's figure of L2,160bn on net revenues of L27,510bn. Fiat Auto also spent *another L1,330bn on research* and development last year, a slight increase over 1991.

However, this is not an easy time for financing new investment. Cash flow at Fiat Auto fell from L1,990bn in 1991 to L1,330bn last year, and operating income has been sliding. From a L2,360bn high in 1989, operating income slumped to L160bn in 1991 before plummeting to a L540bn loss last year.

Figures at group level underline the strain of financing the investment programme. From L3,310bn in 1989, Fiat Group net income dropped to L550bn last year, and cash flow almost halved from L6,430bn to L3,630bn. Over the four years 1989 to 1992, the group's net financial position suffered a massive reversal, moving from a surplus of L2,120bn at year-end 1989 to a deficit of L3,850bn at the end of last year.

Hopes of improvement this year are slender. Industry specialists wonder about the impact on the accounts of summer sales campaigns, aimed at reducing stocks before the Punto's launch. But the costs of special offers, discounts and other encouragements to move *stocks are less significant than* market conditions.

Fiat is launching its new model at an inauspicious moment. Car sales in Italy in the first half of the year slumped by 22.5 per cent against the same period last year. Mr Gabriele expects that new car sales will be between 15 and 18 per cent lower than last year, suggesting a total of between 1,950,000 and 2,010,000.

With Italians pragmatically assessing alternatives when considering new cars – and no longer feeling patriotic obligations to buy Fiat – the Turin group's models must prove their worth in order to win sales

Others are less sanguine. Mr Salvatore Pistola, managing director of Rover Italia, believes that 1,870,000 new cars will have been sold when the year closes. Mr Massimo Berni, head of General Motors Italia, says: "There are no prospects for improvement in the short term, and the trend suggests a figure of 1,800,000."

Mr Pistola and Mr Berni both think that there might be a small increase to 1,900,000 next year. If the more pessimistic *experts are correct, Fiat and* the importers may have to wait until 1996 before the 2m threshold is again crossed.

Economic, political and fiscal factors underlie the sharp drop in the market. The depressed economic climate is one of the reasons why Italians are deferring car purchases. "There is no shortage of liquidity, but people are not spending because they are worried about their jobs," says Mr Gabriele, adding that political uncertainty also acts as a brake on big spending decisions by families.

Additional taxes and increased health charges have also induced caution in family spending this year. "The government's continual search for extra tax revenues is causing diffidence and a reluctance to take extra commitments or spend savings when these might be needed to meet *surprise tax bills," says Mr Gab*riele. The company car is not a significant part of the new car market in Italy, sales depending predominantly on how families manage their budgets.

However, Fiat is not only launching the Punto into a sickly economy, it is also having to fight aggressive competition from importers. Over the past five years, foreign makes have steadily eroded Fiat's share of the Italian market. In 1988, the Turin group sold 1.35m cars for a market share of 59.9 per cent. Sales last year were 1.05m, cutting Fiat's domestic market share to 44.3 per cent.

Fiat has paid the price of failure to renew its range with attractive models to compete with imports in terms of style, technology and cost. Indeed, even in the particularly difficult conditions of the first half of this year, during which Fiat was able to regain *a little market* share to 44.6 per cent – albeit on a 22.1 per cent volume drop – some importers have been able to buck the trend.

The most prominent is Nissan, which is enjoying booming sales of its Sunderland-built Micras and Primeras. In the first six months, Nissan sold 24,500 cars – an increase of 78.4 per cent on the same period last year – to take a market share of 2.3 per cent.

Rover and General Motors are also both performing well, Rover suffering a volume decline of only 2.4 per cent and GM 4.1 per cent between January and June.

Mr Pistola says that "Roverisation" has been successful, *with the Rover badge* enjoying a good image for styling, quality and technology. "We are competitive on price," says Rover's managing director. The company is doing well in certain niches, and with its 800 series top-of-the-range saloons and coupes.

"*November's launching of the 600 series*, which has a distinctive styling edge, should help us increase market share. The 400 series station wagon being launched next year will also provide a boost," says Mr Pistola. And he believes that Rover will double its market share when it launches its new small car in two or three years.

"Value for money is General Motor's formula," says Mr Berni. Last year, Opel's sales rose by 33.7 per cent to 134,000, and its market share increased from 4.3 to 5.6 per cent. Although sales dipped slightly in the first six months this *year*, Opel's share increased to 6.6 per cent. "We are a volume business, but strong in niches at the same time," Mr Berni says, pointing to Opel's success with the Astra estate and Calibra coupe.

Despite the German origin and D-Mark pricing of much of GM's imports, the company has made sure to keep price lists competitive. And this is true of other German and French carmakers. The lira devaluation is not offering respite to Fiat in its home market. Indeed, Mr Gabriele says that there is now a flourishing parallel export market of German and French cars due to a 30 per cent price differential.

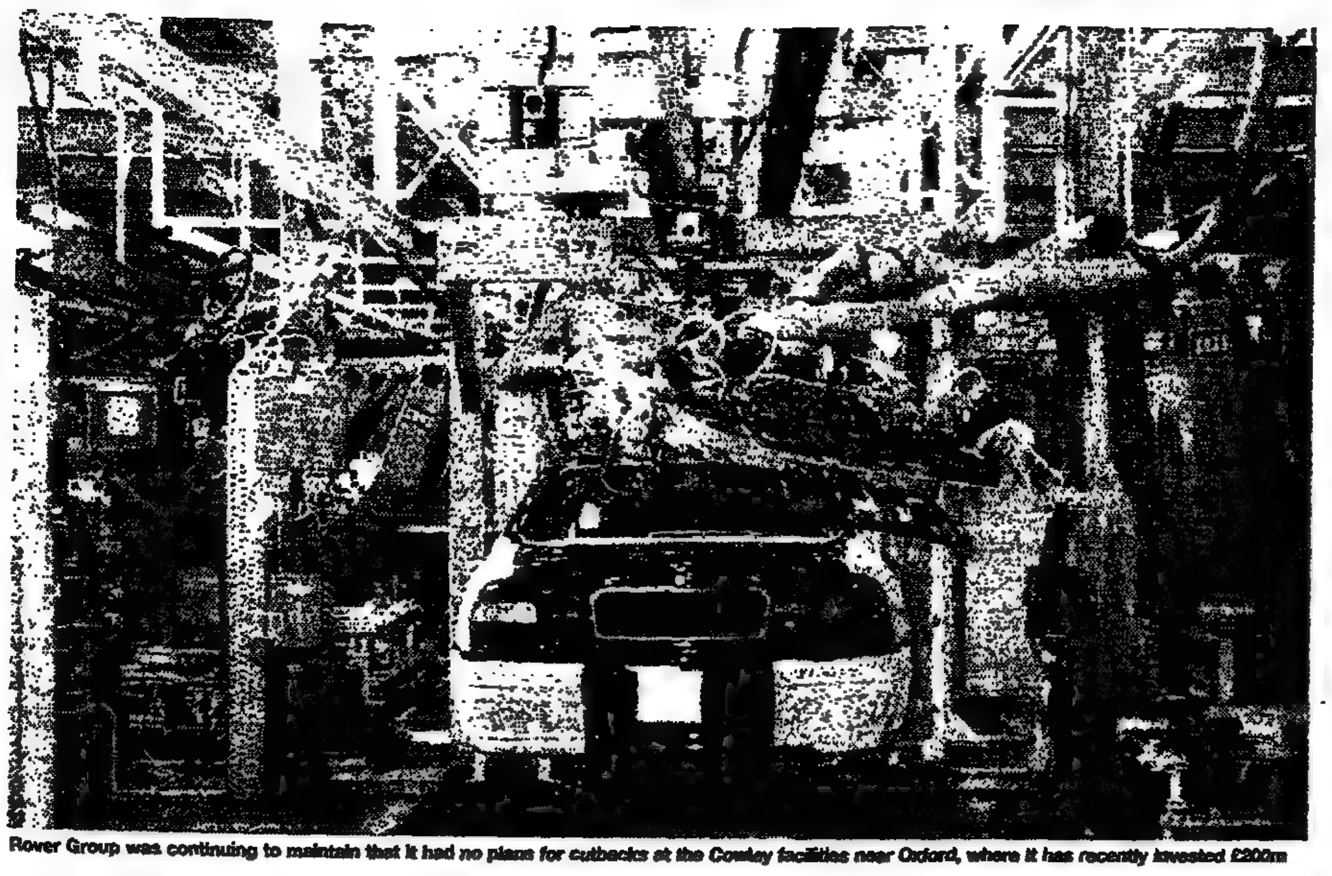
With Italians pragmatically assessing alternatives when considering their new cars, and no longer feeling patriotic obligations to buy Fiat, the Turin group's models have to prove their worth in order to win sales. The Punto is being launched into a different and much more competitive market than was the Uno 10 years ago.

Its success is of fundamental importance to Fiat. But will it succeed? Whether or not Fiat has a winner should be known next spring.

David Lane

The Punto is being launched into a different and much more competitive market than was the Uno. Its success is of fundamental importance to Fiat

WORLD CAR INDUSTRY 7



Rover Group was continuing to maintain that it had no plans for cutbacks at the Cowley facilities near Oxford, where it has recently invested £200m

UK CAR REGISTRATIONS – JANUARY-JULY 1993

	July 1993			Jul' 92	January-July 1993			Jan-Jul' 92
	Volume	Change%	Share%	Share%	Volume	Change%	Share%	Share%
Total market	35,376	+7.0	100.0	100.0	874,411	+9.1	100.0	100.0
UK produced	15,931	[illegible]	45.0	48.1	401,098	+11.2	45.9	45.0
Imports	19,445	+13.3	55.0	51.9	473,313	+7.3	54.1	55.0
Japanese makes	3,070	+6.1	8.7	8.8	106,658	+17.2	12.2	11.3
Ford group	7,302	−17.7	20.6	26.9	192,753	+4.2	22.1	23.0
– Ford	7,196	−18.2	20.3	26.6	189,701	+4.1	21.7	22.7
– Jaguar	106	+30.9	0.3	0.3	3,052	+10.6	0.4	0.3
General Motors	8,319	+51.0	23.5	16.7	156,267	+6.9	17.8	18.2
– Vauxhall	8,206	+52.0	23.2	16.3	151,467	+7.4	17.3	17.6
– Lotus	4	−73.3	0.0	0.1	71	−76.9	0.0	0.0
– Saab*	109	+16.0	0.3	0.3	4,729	−3.8	0.5	0.6
Rover**	5,878	+19.7	16.6	14.9	119,997	+16.0	13.7	12.9
Peugeot group	3,224	−4.5	9.2	10.2	107,573	+13.9	12.3	11.8
– Peugeot	2,143	−9.7	6.1	7.2	70,286	+8.5	8.0	8.1
– Citroen	1,081	+7.9	3.1	3.0	37,287	+25.7	4.3	3.7
Volkswagen group	2,695	+1.8	7.7	7.9	51,023	+1.6	5.8	6.2
– Volkswagen	1,807	+2.8	5.1	5.3	33,560	+3.7	3.8	4.0
– Audi	380	−37.8	1.1	1.8	10,400	+5.2	1.2	1.2
– SEAT	201	+101.0	0.6	0.3	4,109	+7.4	0.5	0.5
– Skoda'	307	+70.8	0.9	0.5	2,954	−29.2	0.3	0.5
Renault*	1,382	−17.7	3.9	5.0	46,191	+83.2	5.3	4.7
Nissan	1,229	+26.5	3.5	2.9	40,451	+18.3	4.6	4.3
Toyota	630	+52.5	1.8	1.3	26,194	+42.9	3.0	2.3
Volvo*	502	−9.2	1.4	1.7	21,535	−8.6	2.5	2.9
Fiat group	1,256	+43.1	3.5	2.6	20,936	+29.5	2.3	1.9
– Fiat	1,205	+51.2	3.4	2.4	19,602	+32.6	2.2	1.8
– Lancia	4	−60.0	0.0	0.0	289	−3.7	0.0	0.0
– Alfa Romeo	47	−33.8	0.1	0.2	1,045	−5.5	0.1	0.1
BMW	568	+26.2	1.6	1.4	19,374	−5.7	2.2	2.6
Honda	576	−5.8	1.6	1.8	14,045	+7.3	1.6	1.6
Mercedes-Benz	303	+50.0	0.9	0.6	10,285	−11.4	1.2	1.5
Mazda	148	−52.3	0.4	0.9	8,507	−5.6	1.0	1.1

*GM holds 50% of Saab Automobile and has management control. ** Includes Range Rover/Discovery. Honda holds 20% of Rover
'VW holds 31% of Skoda and has management control. *Renault and Volvo are linked through cross shareholdings.
Source: Society of Motor Manufacturers and Traders

■ UK MOTOR INDUSTRY

European slump applies the brakes

Western Europe's car market fell by nearly 18 per cent

The steepest continental European car market slump in recent memory has at last begun to apply the brakes to a resurgent UK motor industry.

After hovering at an unchanged 13.5m units in 1992, western Europe's car market fell by nearly 18 per cent in the first seven months of this year.

The UK market, which went into recession much earlier, has gone against the Euro-trend: up by 9.1 per cent in the same period. But even with most forecasters expecting sales to grow this year to between 1.75m and 1.8m – from 1992's 1.59m – it is too small to sustain output from some UK car plants in the face of such a sharp drop in demand on the Continent.

In gross output terms, statistics from the Society of Motor Manufacturers (SMMT) and Central Statistical Office continued to paint a buoyant picture of expansion during the first half of this year. They showed car production up by 8.19 per cent, to 742,991, over the period, compared with the 686,747 during the same period last year.

But in July, for the first time in many months, the figures showed a fall in total output: by 2.42 per cent, to 115,648. Most tellingly, production for export was down 16 per cent – the first significant drop of the year.

Commenting on the figures, Mr Roger King, SMMT public affairs director, says that "overall production levels are clearly at risk in the face of shrinking exports."

Even so, production would have to slump by nearly one third in the remaining months of this year if the 1992 total of 1,291,880 were not to be exceeded.

Most analysts still expect a final outturn approaching 1.4m – which would be the highest since 1975 and a far cry from the 880,000 produced in 1982, in the depths of the previous recession.

Nevertheless, production at the traditional UK "big four", Rover, Ford, Vauxhall and Peugeot Talbot, is now contracting – in some cases sharply. Growth this year is entirely the result of the start of UK production by Toyota and Honda, together with an expansion into two-model production by Nissan's plant at Sunderland.

The most recent statistics for manufacturers' production, covering the first five months of this year, show that Nissan's output of Primeras and the small Micra was up 43 per cent to 115,244, compared with a year ago.

Toyota produced 9,727 Carina E saloons and hatchbacks after starting production at Burnaston, in Derbyshire, at the turn of the year. Honda, which started production at its Swindon plant at about the same time, produced 10,886 of its Accord model in the same period.

That contrasts with a 3 per cent production drop at Rover, 5.2 per cent at Vauxhall, 12.3 per cent at Ford and a production drop of nearly 16 per cent at Peugeot Talbot.

By July, the actual cutbacks were starting. Most significantly, Peugeot decided to end its UK production of the 405 family saloon, its market mainstay. Having become a two-model plant only last January – when the new 306 hatchback entered production – Ryton is now building only the 306.

Output has been reduced to 1,600 cars a week from 1,900 and 300 jobs are being cut.

Vauxhall has begun to cut shifts both at its Astra plant at Ellesmere Port and at Luton, where it produces the Cavalier/Opel Vectra. Ford has taken similar action at Halewood.

Despite its own output also falling back slightly, Rover Group was continuing to maintain in early August that it had no plans for cutbacks at either its Longbridge plant near Birmingham or the Cowley facilities near Oxford, where it has recently invested £200m on modernisation.

On the contrary: Rover, which is now the only European manufacturer to be increasing both volume sales and market share in Europe, maintains that it is exploring ways of increasing output of its Metro and Mini small cars at Longbridge. In the first seven months of this year its total sales in Europe, including the UK, rose by 10.5 per cent to 191,000 and its market share from 2 per cent to 2.7 per cent. That output has not matched the increase reflects mainly the British Aerospace subsidiary's "lean distribution" efforts – to cut stocks in the supply line between factories and dealers' showrooms.

Although Nissan has changed the balance of its production, reducing the Primera output and increasing the Micra's, it says the downturn in continental Europe should not stop it reaching its target output, from Sunderland, of 270,000 cars this year. Similarly, Toyota and Honda maintain that they are on course to achieve their respective output targets of 36,000 and 32,000 for this year.

Toyota, however, is already speeding up its previously declared, longer-term production targets.

It intends to produce 100,000 cars next year – a year ahead of the original schedule – on the way to to 200,000-a-year production in the late 1990s.

DRI/McGraw-Hill, the forecasting group, regards this as conservative. It predicts that by 1998 Japanese "transplant" production in the UK will have reached 800,000 units a year, and that well before then Toyota will have added the smaller Corolla to Carina E production at Burnaston.

Mr Tatsuro Toyoda, Toyota's president, has already indicated that Toyota is "considering" a second model for the plant.

DRI projects that, overall, UK car output will reach a record 2.1m by 1998 and that the UK motor industry will once again be recording a substantial balance of trade surplus after recording deficits of as much as £6bn in some recent years.

Competition within the UK market, however, is expected to remain intense and keep profit margins under pressure.

The long-sustained market leadership by Ford of Britain, which made a pre-tax loss of £353m last year, is being challenged as never before by General Motors' Vauxhall subsidiary. Vauxhall actually beat Ford in the UK sales charts for the first time in July, although total sales in the month are very small and regarded as unrepresentative because they precede the August sales "bulge" caused by the introduction of the new registration plate prefix.

Rover, buoyed up by the new 600 saloon range and its surging Range Rover, Discovery and Land Rover output, is also reversing its long trend of market share decline.

In the first seven months of this year it accounted for 13.7 per cent of UK new car sales, up from 12.9 per cent in the year-ago period and fewer than four percentage points behind Vauxhall's 17.3.

Ford, which once regularly commanded 30 per cent of all new UK car sales, now has a share of only around 22 per cent.

John Griffiths

Vauxhall has begun to cut shifts at its Ellesmere Port and Luton plants

■ NORTH AMERICA

A greater mood of optimism

AMERICA'S Big Three vehicle manufacturers – Ford, General Motors and Chrysler – which have spent a decade losing market share in their own country to nimbler Japanese rivals, are at last hitting back hard and winning market share gains.

The revival of Detroit still has a long way to go, and special factors may be making the Japanese atypically weak at present, yet there is a greater mood of optimism in the US motor industry now that at any time since the early 1980s.

That was when the Japanese began not only importing vehicles to the US but also manufacturing in America, setting up so-called "transplant" assembly plants, for the most part making cars rather than trucks. This helped boost their share of the US car market to more than 30 per cent by the early 1990s.

The improved mood in Detroit stems partly from the fact that the US vehicle market generally is recovering from the deep recession of 1991-2, and sales growth is running somewhat ahead of the overall economic recovery.

US vehicle sales could total about 14m units in 1993, up from roughly 13m last year

This may be due partly to the high average age of the fleet presently on US roads, and partly to low interest rates, which makes borrowing for a new car less painful.

Whatever the reason, US vehicle sales could total about 14m units in 1993, up from roughly 13m last year – and Detroit is winning a bigger share of this larger pie.

In the first six months of this year the Big Three accounted for 75 per cent of car and light truck sales, up from 72.5 per cent in the same period of last year. Asian companies saw their share drop to 22.8 per cent from 24.7 per cent.

In the car market alone, Detroit boosted its share from 65.1 per cent to 67.7 per cent, while the Asians dipped from 30.7 per cent to 28.9 per cent.

Why the change? First, the Americans are seeing the fruits of the painful lessons they learnt from the Japanese in the 1980s. Detroit is developing vehicles more quickly, and bringing its suppliers into the design process; it has introduced Japanese style "lean" manufacturing techniques in many plants. And it has realised the importance of building the highest quality into its products.

Chrysler, for example, the smallest of the Big Three, totally changed the way it operated after studying Honda, the first Japanese company to set up "transplant" operations in the US.

Japanese vehicles still tend to have a higher reputation for quality than US ones among American customer surveys, but the gap has narrowed to the point where consumers are prepared to pay greater attention to other issues, such as a vehicle's styling, price and dealer service.

The Americans are doing much better in the style stakes. Chrysler has a big hit on its hands with its very different-looking LH series of mid-sized vehicles, the Chrysler Concorde, Eagle Vision and Dodge Intrepid.

General Motors still has to revamp much of its model range, but its Saturn small car is one of the country's hottest selling vehicles. Saturn, a stand-alone project begun in the early 1980s to show that America could compete with Japan when starting from scratch, has just moved into profit after three years of production.

Detroit has also been much more effective than the Japanese in taking advantage of a trend by consumers to buy pick-up trucks, mini-vans or four-wheel-drive Jeep-style vehicles rather than cars. This segment of the market is likely to account for about 40 per cent of total US sales this year, up from about 36 per cent in 1992.

Many of these vehicles have substantially higher profit margins than cars. Ford's four-wheel-drive Explorer and Chrysler's Jeep Grand Cherokee have been especially successful.

Japan's share of the light truck market has dropped from a peak of 20.4 per cent in 1986 to 13.5 per cent in 1992. Factors behind this drop include the sheer strength of the US competition; the fact that imported trucks have long faced a 25 per cent tariff; and dumping allegations by the Big Three, which have held back Japanese mini-van sales.

In both the car and truck markets, Japan's competitive position has been hurt by the rise in the value of the yen relative to the dollar since the start of this year.

This has forced the Japanese manufacturers to push up prices in the US much more aggressively than their Detroit rivals.

This trend shows no sign of changing in the near term. General Motors, for example, recently announced that it would seek to raise its market share during the 1994 model year by increasing its overall vehicle prices by an average of only 1.8 per cent – well below the expected rate of inflation.

Still, Detroit can hardly afford any complacency. For one thing, exchange rates are unpredictable and the dollar could strengthen against the yen. And some observers suspect that the Japanese manufacturers may, to some degree, be deliberately soft-pedalling in the US market so as to stave off tougher trade sanctions by the Clinton administration.

The Big Three still have some way to go to match the efficiency of the Japanese

Whatever the case, the Japanese remain formidable competitors and the Big Three still have some way to go to match their manufacturing efficiency and reputation for quality.

None has further to travel than General Motors which is still losing money in North America and remains extremely inefficient compared to the rest of the industry. However, the plan it put in place last year to return North America to profit is starting to bear fruit.

GM says it is on target to break even – on an earnings before interest and tax basis – in North America this year, compared to its loss of $4.5bn in 1992. Factors include plant closures, which are bringing its manufacturing capacity more in line with demand, job cuts and a drive to reduce its biggest single cost item, raw materials.

But restoring its North American operations to healthy profits is likely to take several years, and will depend in no small measure on it producing an attractive range of new vehicles which consumers are keen to buy.

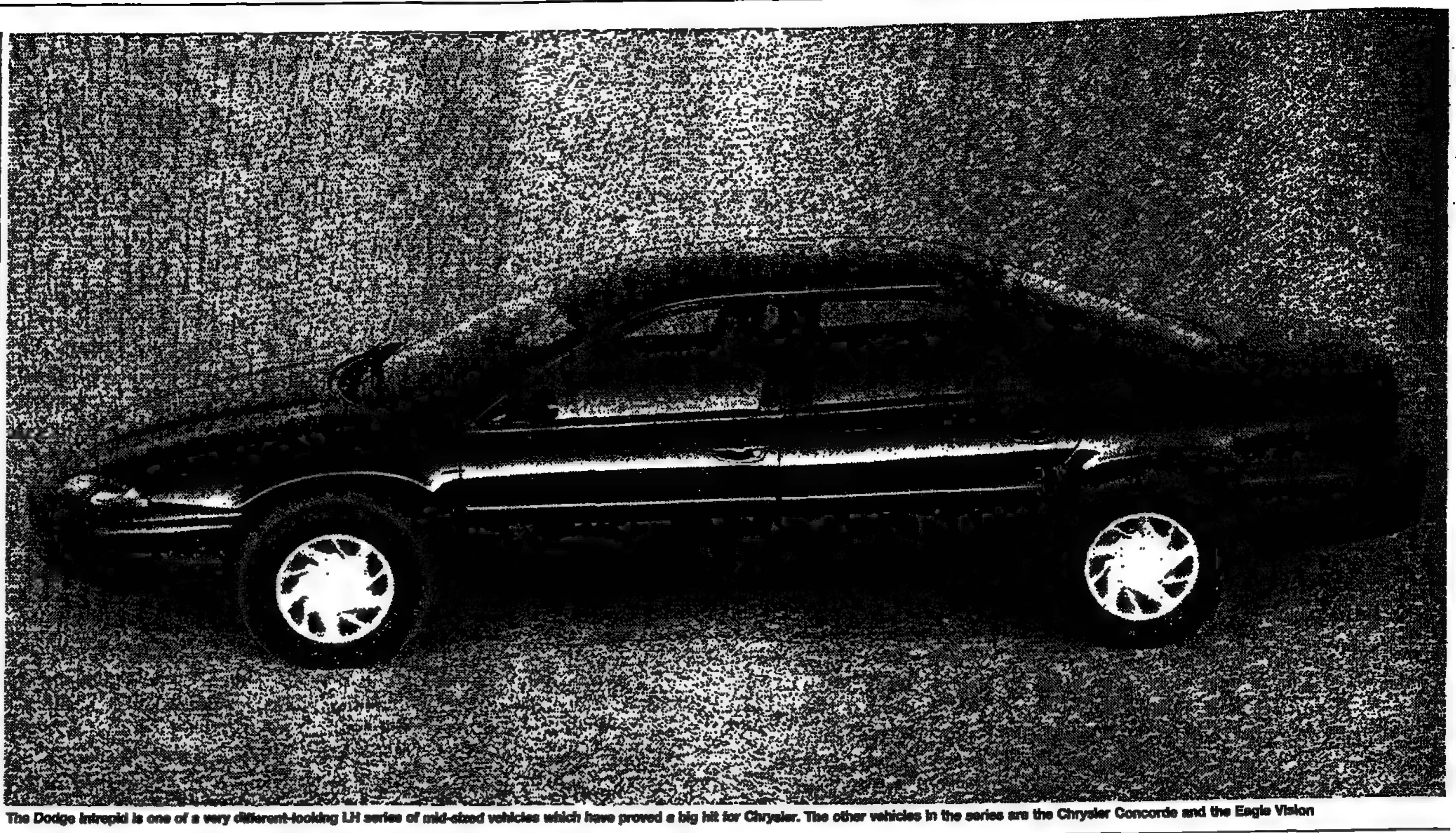
Martin Dickson

LEADING WORLD VEHICLE MAKERS 1992

Manufacturers	Cars	Commercial vehicles*	Total production
1. General Motors	5 053 000	1 898 000	6 951 000
2. Ford	3 804 000	1 924 000	5 728 000
3. Toyota (¹)	4 097 000	1 253 000	5 350 000
4. Volkswagen (²)	3 291 154	201 101	3 492 255
5. Nissan	2 316 000	776 000	3 092 000
6. Fiat	2 000 945	276 394	2 277 339
7. Renault	1 760 743	334 031	2 094 774
8. Chrysler	800 427	1 254 743	2 055 170
9. PSA Peugeot-Citroën	1 842 300	207 500	2 049 800
10. Honda	1 721 501	132 531	1 854 032
11. Mitsubishi (³)	1 142 000	533 000	1 675 000
12. Mazda	1 139 914	276 990	1 416 904
13. Suzuki (⁴)	652 427	334 454	986 881
14. Hyundai	725 918	157 596	883 514
15. Mercedes-Benz	541 541	269 382	810 923
16. VAZ (Lada)	620 000	61 000	681 000
17. Isuzu	119 000	481 000	600 000
18. BMW	598 142	-	598 142
19. Fujy Heavy	423 459	146 623	570 082
20. Kia	322 977	230 803	553 780
21. Rover	346 353	20 864	367 217
22. Volvo	302 949	51 977	354 926
23. Daewoo	238 800	30 953	269 753
Total of the 23	33 868 000	10 839 000	44 707 000
World total	34 838 000	13 117 000	47 955 000

Notes: *CCFA estimate Figures are consolidated groups including overseas production ¹Including Daihatsu and Hino ²Volkswagen + Audi + Seat + Skoda ³Including Proton (Malaysia) ⁴Including Maruti (India)

Source: Comité des Constructeurs Français d'Automobiles



The Dodge Intrepid is one of a very different-looking LH series of mid-sized vehicles which have proved a big hit for Chrysler. The other vehicles in the series are the Chrysler Concorde and the Eagle Vision

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INSIDE

CMB falls 7% and warns of decline
CarnaudMetalbox, the Anglo-French packaging group, announced a first-half 7 per cent fall in net profits and warned of a similar decline for the second six months. Page 20

Black cloud over Grolsch
Grolsch, the Dutch brewer, blamed changing weather patterns in Europe for a 4.8 per cent fall in first-half results from Fl 14.9m to Fl 14.2m ($7.7m). Page 20

Frosty family feud
Canada's McCain family, which owns the international frozen-foods group, is riven with discord. Page 21

TNT reports loss
TNT, the Australian transport group which saw five directors resign last week after a disagreement, announced an operating loss after tax and abnormal items of A$256.7m ($170m) for the year. This compares with a A$195.4m deficit. Page 22

Nikko Kyodo gets five-year itch
Nikko Kyodo, the Japanese mining and oil refining group, is carrying out a major restructuring of Gould, its US electronics subsidiary and the world's largest manufacturer of copper foil, which it bought five years ago in one of the largest Japanese takeovers of the time. Page 22

Housebuilder returns to black
George Wimpey, Britain's second largest housebuilder, moved back into profit in the first half and said that an upturn in UK housing sales earlier this year would be reflected in second-half profits. Page 24

Locusts plague Pakistan

Locusts are breeding dangerously fast in the deserts of Pakistan. According to government estimates, at least 47,000 bands of locusts have been eliminated in spraying over an area of 12,000 sq km. But that is only a small portion of the massive task at hand. Page 26

Good rises in Latin America
Latin America's emerging markets performed well last week, with Colombia and Venezuela in particular coming to the fore, while there were also good rises in the Philippines, Malaysia and Portugal. US funds have been flowing into Latin America recently, seeking out underperforming markets. Back Page

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)			**Falls**			
Rises			CarnaudMetalbox	198.5	-	18.5
Schering	983.5	+ 15.5	GTM-Entrepose	502	-	13
Falls			Geophysique	860	-	20
GEHE	438	- 9	Paris Reescompt	459	-	11
Heidelb Zem	1050	- 20	UAP	615	-	14
Hochtief	1130	- 14	**TOKYO (Yen)**			
Linotype-Hell	354	- 15	**Rises**			
Porsche	625	- 10	Dai Nippon Print	1710	+	[illegible]
NEW YORK ($)			Danny's Japan	4220	+	180
Falls			**Falls**			
Baxter Intl	22⅝	- 3⅝	Kobe Steel	309	-	9
Johnson & Jhnsn	38⅝	- 1⅜	Mitsubishi Oil	1030	-	26
Oxford Health	64¼	- 6	Nikko Kyodo	510	-	35
Pacificare Hlth	35	- 4⅜	Nippon Steel	360	-	7
US Healthcare	43⅞	- 2⅝				
Warner-Lambert	66⅞	- 2				
PARIS (FFr)						
Rises						
Intertechnique	595	+ 12				

New York prices at 12.30pm.

LONDON (Pence)			Blenheim	355	-	43
Rises			Burnfield	124	-	28
Albion	158	+ 6	CarnaudMetalbx	[illegible]	-	[illegible]
Baldwin	53	+ 12	Ghost Bros	415	-	14
Baynes (C)	64	+ 4	Kyoch	35	-	3
Border TV	147	+ 12	London Scot Bk	103½	-	5½
Ex-Lands	33	+ 3	MEC	115	-	7
Geskiner	156	+ 12	P & O Defd	619	-	49
Greenway	73	+ 4	Plasmec	86	-	12
Int Business C	745	+ 10	Portals	502	-	21
Ulster	59	+ 11	Regent Inns	180	-	6
OGC Int	158	+ 7	Sutar	174	-	7
Rossgar	22	+ 4				
UK Land	51	+ 21½				
Falls						

Milan stock market expects boost from flotation of BCI and Credito Italiano

IRI to sell bank stakes in public share offering

By Robert Graham in Rome

IRI, the Italian state holding company, has abandoned plans for the trade sale of its majority stakes in Banca Commerciale Italiana and Credito Italiano in favour of public share offerings.

The move was widely welcomed yesterday, with Milan bourse operators suggesting the decision to opt for a public flotation could give a much needed boost to the stock market. IRI's shares in the two banks – it has 67 per cent of Credito and 57 per cent of BCI – will also be floated on foreign stock exchanges.

The timing of the flotation has yet to be announced and IRI, which is headed by Mr Romano Prodi, yesterday declined to place a notional value on its two holdings.

However, IRI will shortly select advisers and a lead manager. The absence of any indication on pricing resulted in cautious trading yesterday in the two shares on the Milan bourse, with BCI shares down 2.1 per cent and Credito up 1.3 per cent.

IRI is under pressure to complete the deals as soon as possible to offset its increasingly parlous financial position. It has borrowings of L72,500bn ($45.5bn) and losses this year are expected to reach L5,300bn.

Last October Merrill Lynch was hired to advise on the sale of Credito with the aim of finding either a large domestic financial institution or a foreign buyer to absorb part or all of IRI's holding. Since then no Italian financial institution has shown much enthusiasm for what is Italy's sixth largest bank.

Some 27 foreign institutions were also sounded out.

Estimates of the total value of the bank also varied from L6,000bn to L10,000bn while the stock market capitalisation is around L2,000bn.

By opting for a public flotation, IRI is now seeking wider ownership for the two banks. This includes clients and employees who will be given preference along the lines of some UK privatisations. The government is expected to encourage the formation of a small hard core of domestic institutional investors.

The government first announced plans to sell IRI's stake in Credito some 12 months ago. At the time BCI was considered a better candidate for privatisation; but then the government was still thinking in terms of matching BCI with the state owned Banco Nazionale di Lavoro. A BNL-BCI alliance is now formally excluded.

Romano Prodi, head of IRI, which declined to place a notional value on its holdings in the banks

Unilever buys Kraft ice cream unit

By Frank McGurty in New York and Guy de Jonquières in London

UNILEVER, the Anglo-Dutch consumer products group, is set to become the largest US ice cream maker with the purchase of the ice cream business of Kraft General Foods, part of Philip Morris, the tobacco and food group.

The Kraft business has annual sales of almost $500m. Added to Unilever's existing US ice cream sales of about $200m, it will give the Anglo-Dutch group nearly a fifth of a market worth more than $3bn a year.

Terms of the deal were not disclosed, but Mr John Campbell, of stockbrokers NatWest Securities in London, estimated it was worth about $300m.

Kraft said last month that it had received an approach from an unnamed company interested in the business, which sells ice creams and frozen yoghurts under brands including Breyers, Sealtest, Knudsen and Light N' Lively.

Acquisition of the business will introduce Unilever into the US bulk ice cream sector, the largest part of the total market.

Until now, Unilever has focused in the US entirely on "impulse" ice creams, which are sold for immediate consumption. It has recently acquired popular US brands, including Gold Bond and Klondike.

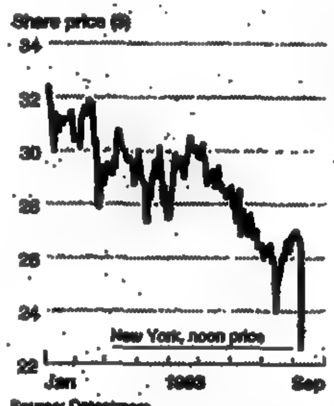
Though Breyers and Sealtest are among the best-known US brands, their market share and profitability have deteriorated sharply in recent years, and Unilever is likely to have to invest substantially to restore their position. Growth of supermarket sales of bulk ice creams have slowed to 2 per cent in the past year. But the value of KGF's ice cream sales fell slightly, while operating margins have narrowed to about 3 per cent.

The weaker performance partly reflects increased competition which Breyers has faced from newer "super-premium" ice creams, which sell at higher prices. Though KGF has launched its own super-premium line, results have been disappointing. Sealtest's sales have fallen 10 per cent to $63m in the past year and it has been forced to cut prices. The KGF ice cream business employs about 2,000 people and has plants in six US states.

Unilever is Europe's biggest ice cream producer, with about 40 per cent of a market worth $4bn a year.

Raymond Viault has been named president and chief executive of Kraft's merged group, Page 20

Baxter International
Share price ($)



Source: Datastream

Health group issues profit warning

By Karen Zagor in New York

SHARES in Baxter International tumbled nearly 15 per cent yesterday morning following a third-quarter profits warning by the US hospital supplier.

Baxter, which achieved notoriety earlier this year when it pleaded guilty to co-operating with the Arab boycott against Israel, said its third-quarter earnings would fall below last year's $148m, or 53 cents a share. Analysts had predicted earnings of more than 57 cents.

The company also plans to cut senior management salaries by as much as 25 per cent and to freeze other employee salaries.

On Wall Street, Baxter's shares dropped $3⅝ to $22⅝, just above their 52-week low of $22¼, in active mid-session trading. The news sent shock waves through the medical sector, with Oxford Health Plans down $6 to $64¼ and Pacificare Health Systems plunging $4⅜ to $30⅝.

Baxter blamed weak market conditions for its second consecutive earnings shortfall; in July, the company warned that second-quarter operating income would decline. Mr Vernon Loucks, chief executive, said revenue growth had slowed throughout the industry, reflecting changes in health care spending in anticipation of health care reform.

"Baxter did show revenue growth of 6.5 per cent for the second quarter of 1993," he said.

But Baxter's problems run deeper than the industry's woes. The company has lost business from private hospitals and the US government in the aftermath of the Arab boycott debacle. Last month, the Department of Veterans Affairs banned Baxter from bidding on new contracts for up to one year.

Although sales to US government agencies brought in only about $130m of the company's $8.5bn 1992 sales, the ban further damaged Baxter's credibility.

To make matters worse, some of Baxter's biggest customers, including Premier Hospitals Alliance, are cutting the amount of hospital supplies they buy from Baxter.

Soros moves into US property with $634m Travelers purchase

By Richard Waters in New York

A US property fund set up earlier this year by Mr George Soros and advised by Mr Paul Reichmann, former head of Olympia & York, was close yesterday to completing its first investment, a $634m block purchase of properties from Travelers, the US insurer.

Also yesterday, Soros' Quantum Fund revealed a plan to set up a new UK property fund to take on its interest in a $500m joint venture with British Land, the UK property group, which was announced in June. Shares in the new fund, denominated in sterling, could eventually be listed separately, Soros said.

The disposal by Travelers marks the insurer's first bulk sale of properties since an announcement in February that it intended to shed $2bn of properties acquired as a result of defaults on commercial mortgages.

Quantum Realty Fund, the Soros US property fund launched in March, was expected to complete the purchase of a block of 47 properties, representing 6m sq ft of commercial space and 6,000 residential units. In a statement, Mr Reichmann said the deal brings "strong current cashflow as well as the prospect for significant capital appreciation as the property markets recover later in the decade".

Quantum Realty will put up around $210m, with a further $90m being provided Mr Soros and various Soros family investment vehicles. The rest has come from a bridging loan, which will be refinanced by an issue of mortgage-backed securities. The leverage in the fund could be increased in the future by a further securitisation in the form of a real estate investment trust (Reit), Mr Soros said. Reits have enjoyed a boom on Wall Street this year, with share prices of existing companies rising sharply in the first four months and new Reits raising $1.8bn through public offerings in the first half.

Following the Travelers deal, the Quantum Realty Fund will still have $500m of equity to invest in properties.

Meanwhile, the Quantum Fund said the plan to spin off its UK property interests would not alter the terms of its relationship with British Land, in which the investment fund owns 11m shares. The new UK fund will hold Quantum's £250m ($377m) interest, together with an additional £40m-£60m to be committed by Mr Soros.

P&O interim results disappoint

By Roland Rudd in London

PENINSULAR and Oriental Steam Navigation Company yesterday disappointed the London market with lower than expected profits before disposals. The shares fell 49p to 619p.

Lord Sterling, chairman, said: "It would have been abundantly clear to anyone who read our annual report that the UK recovery is slower than anticipated. It is a delusion to think we can surge ahead while Germany and France remain deep in recession."

The company almost doubled pre-tax profits to £291.6m ($440m), from £151.2m, on the back of increased sales of businesses in the half year to the end of June. Turnover rose to £2.7bn (from £2.5bn).

Pre-tax profits before disposals fell 11 per cent to £80.1m, mainly due to a big fall in profits from container and bulk shipping.

Gains from the devaluation of sterling and a strong US dollar were more than offset by difficulties in Asia which were behind shipping's 58 per cent profit fall to £11m.

After the sale of Sutcliffe, the contract caterer, borrowings fell from £1.89bn at the end of December to £1.73bn at the end of June. Net interest payable rose to £68.9m (from £53.8m).

Further disposals are expected to follow yesterday's announcement of the sale of Buck and Hickman, a distributor of engineers' supplies, to Charles Baynes for £32.5m.

A scrip dividend is also offered to preserve cash. Its value of 36p compares with an ordinary dividend of 24p. For each share offered under the issue Barclays de Zoete Wedd is offering cash of 35.28p. If all shareholders take up the scrip dividend alternative the group would retain cash of £163m, representing a saving on the 1993 dividend of £128m and a further £35m of advance corporation tax.

Lord Sterling said the total dividend is expected to remain unchanged at 30.5p.

The group is considering appealing to the European Commission over the Department of Trade and Industry's refusal to allow it to work with other ferry operators on the Dover-Calais route to head off the competition from Eurotunnel. Lord Sterling said: "The DTI's decision defies rational explanation."

Earnings per share rose to 40.1p (from 20.9p).

Lex, Page 18; London SE, Page 29

Dip for Total reflects resilience

By John Ridding in Paris

TOTAL, the French oil group, has announced a modest decline in net profits from FFr1.9bn to FFr1.8bn ($316m) for the first half of 1993, underlining its resilience to recession in Europe.

Turnover dipped from FFr68.76bn to FFr67.85bn in what the company described as a difficult economic environment. But operating income profits rose slightly from FFr3.4bn to FFr3.49bn.

"It was a good result given the economic background," said Mr John Wellemeyer, oil analyst at Morgan Stanley. He forecast net profits of about FFr3.6bn for the full year.

Mr Serge Tchuruk, Total chairman, said the results reflected a varied performance across core businesses and that the benefits of its "refocusing" strategy, launched in 1990, would start to be felt from next year. He said the group had begun to seek alliances in gas distribution and electricity supply.

In the first six months, the exploration and production division suffered from the decline in crude oil prices from $19 per barrel to about $18.20. As a result, operating income fell from FFr1.31bn in the first half of 1992 to FFr1.19bn.

Oil production, excluding the Middle East, fell from 154,000 barrels per day to 135,000 b/d. Gas production also fell, from 972m to 941m cubic feet per day. Total said that the falls reflected the impact of disposals.

Its 1992 forecast for production growth of 50 per cent between 1990 and 1995 remained unaffected, the group said.

The chemicals division also saw profits decline, because of European recession and the downturn in the car and construction industries. Operating profits fell from FFr852m to FFr783m.

The trading and Middle East division increased operating profits from FFr304m to FFr434m, reflecting an improvement in shipping rates in the first six months of the year.

Mr Tchuruk also raised the prospect of a further sale of the French state's holding. The government has said it wants to maintain its stake in Total at about 5 per cent, but the effects of capital increases during the year have raised this to 8 per cent. The sale of the surplus 3 per cent, valued at about FFr2bn, could be made at any time, he said.

Philip Morris links Kraft and Jacobs Suchard units

By Guy de Jonquieres, Consumer Industries Editor

PHILIP MORRIS, the US tobacco and food company, is to merge Kraft General Foods Europe and Jacobs Suchard, its two main European food businesses. The link-up creates a group with sales this year of about $9bn in 20 countries.

The group, to be called Kraft Jacobs Suchard (KJS), will be Europe's third largest food manufacturer after Nestlé and Unilever, and will have particularly strong positions in coffee, confectionery and cheese.

Integration of the two businesses, which will be phased over the rest of the year, is designed to improve productivity, cut costs, streamline management, and unify marketing in the face of increasingly tough competition in Europe, company executives said.

Mr Raymond Viault has been named president and chief executive of KJS. He previously headed Jacobs Suchard, the Swiss confectionery and coffee company which Philip Morris acquired three years ago for $3.8bn.

Jacobs Suchard has until now operated almost separately from Kraft General Foods Europe, which was formed out of Philip Morris' acquisitions of Kraft and General Foods of the US in the 1980s.

The two businesses' headquarters will be merged in one office in Zurich, Switzerland, and their operations in most countries combined under one management. Mr Viault said the reorganisation would create "some redundancies" among the group's 32,000 staff in 20 countries.

He said the merger, which has been under discussion for five months, was expected to achieve some "fairly significant savings," particularly in purchasing, distribution and warehousing.

Germany, where KJS will have annual sales of $3bn, will be the group's biggest national market, followed by Italy and France. Mr Viault said expanding the group's cheese business in France and central Europe, probably by acquisition, was one of his top priorities.

Freia Marabou, the Norwegian confectionery and snacks manufacturer purchased by Philip Morris last year, is excluded from the reorganisation.

NTT warns on effects of telephone charges war

By Michiyo Nakamoto in Tokyo

NTT, the Japanese telecommunications company, yesterday warned that pre-tax profits for the year to next March would plunge 67 per cent to Y50bn ($480.7m) if it went ahead with a planned reduction in long-distance rates. The group previously forecast profits of Y150bn for the period.

Mr Masashi Kojima, president of NTT, made the warning for the parent company. He cautioned that it might even be forced to post a pre-tax loss if it did not raise rates for city calls.

He added, however, that the company planned to maintain its dividend by carrying over about Y86bn in profits from fiscal 1992. NTT shares yesterday suffered a fall of Y11,000 to Y930,000.

NTT yesterday applied to the ministry of posts and telecommunications to lower its rates for long-distance calls. The move was an attempt by the company, which was privatised in 1986, to compete more efficiently with its rivals, which have taken about 30 per cent of the long-distance market.

NTT's competitors, however, responded by threatening cuts of their own.

The planned rate cuts by NTT, which average 21.4 per cent and are to be implemented in October, would trim revenue by Y270m on an annual basis, according to Mr Kojima.

At the same time, NTT hopes to increase rates on short-distance city calls, basic charges, and directory services. All these areas have posted losses. Kleinwort Benson estimates that a rise in NTT's local call rates could double the company's profits by 1994.

However, the ministry of posts and telecommunications is unlikely to approve NTT rate rises without strong evidence that the company is cutting costs substantially or indications that its profitability has deteriorated dramatically.

Prudential posts mid-term slip

By Norma Cohen, Investments Correspondent

PRUDENTIAL Corporation, the UK's largest life insurance company, reported interim profits for the six months ended June 30 of £243m ($365.42m), down from £249m a year ago, but said that underlying profits rose by 14 per cent at current exchange rates.

The company raised its interim dividend by nearly 10 per cent to 4.5p per share.

Profits for the 1992 period were boosted by a one-off gain of £52m resulting from a restructuring of assets in the shareholders' portfolio.

Underlying profits for the current period were aided by a turnround in the Prudential's general insurance business which earned £18m against a year-ago loss of £2m. The Mercantile and General Reinsurance business pared its loss for the period to £7m from £25m.

The company has withdrawn from general insurance and has raised premiums in many of its personal lines. Mr Mick Newmarch, chief executive, said the company would remain in personal lines because of the opportunities the business raises for cross-selling of other products. "We are writing this business to give us access to UK households so we can sell them long-term business," Mr Newmarch said, noting that under half of the Pru's personal lines customers have long-term savings products.

In the UK, which accounts for 80 per cent of the Pru's sales, annual premium sales subsided, reflecting a drop in so-called industrial branch business which requires house-to-house collections of premiums and is expensive to operate.

However, single-premium business jumped to £1.4bn in new business from just over £1bn a year ago, largely due to hefty sales of the company's single-premium with-profits bond, the Prudence Bond.

Mr Newmarch said he believed the extensive cost-cutting efforts the company had made in its life division would help it gain market share once new rules on disclosure, required by the UK Treasury, take effect next year. "It's what the new disclosure regime is all about. You have got to demonstrate value to your customers," he said.

The new rules will require companies for the first time to tell prospective policyholders how much of their premiums will be set aside to cover expenses and what the penalties will be if they surrender policies early. Lower costs will allow the Pru to demonstrate that a greater percentage of premiums paid will be invested for the policyholder.

Lex, Page 18

Blenheim shaken by forecast

By Andrew Bolger in London

SHARES in Blenheim Group plunged 43p to a two-year low of 355p yesterday after analysts sharply reduced their profit forecasts for the acquisitive UK international exhibition organiser.

Analysts said the formerly highly rated stock had suffered a substantial blow to its credibility after BZW, the joint house broker, cut its profit forecast for the second time in three months.

Blenheim, which had seemed to survive the recession better than many other media stocks, suffered this downgrade in spite of reporting an 18 per cent rise in pre-tax profits to £15.4m ($23.25m) in the six months to June 30.

Analysts were particularly concerned about the deteriorating situation in France, which accounted for 37 per cent of group trading profit in the first half. For the first time, the group said it might have to discount the charges it levels at trade exhibitions.

The group said there had been some signs of revival in the economies in the US and UK, but those of France and Germany had continued to deteriorate, resulting in flatter overall sales volumes. Next year's profits will also suffer from the absence of the large biennial Batimat exhibition in France.

BZW cut its profits forecast for the full year from £49m to £45m and for next year from £55m to £43m. Smith New Court, which has long been bearish on the stock, is going for only £40m next year.

There is considerable irritation in the City that the reduced profits outlook has emerged so soon after the June convertible share issue, by which Blenheim raised £75.8m to fund acquisitions in the US and continental Europe.

Details, Page 26

Bad weather hits turnover at Grolsch

By Ronald van de Krol in Amsterdam

CHANGING weather patterns in Europe were partly to blame for a 4.8 per cent decline in first-half results at Grolsch, the Dutch brewer which has recently made inroads to Britain and Germany.

Net profit fell to Fl 14.2m ($7.7m) from Fl 14.9m in the first half of 1992, when a long spell of good weather in north-western Europe, generated strong beer sales. This year, the weather had been "no better than average". The company blamed this in part for a 7.6 per cent decline in turnover, to Fl 391.8m.

It also blamed the lower results on weak economies, especially in Germany, and on the decline of sterling, which depressed turnover from the company's Ruddles subsidiary and from its sales of Dutch-brewed beer destined for the UK market.

Despite these difficult conditions, operating profit rose to Fl 24.5m from Fl 22.4m, reflecting rises in selling prices as well as declines in the prices of raw materials, marketing expenses and excise duties.

However, financial income swung into a negative Fl 3.3m from a positive Fl 28,000 the year before, due to the 1992 cash acquisition of Ruddles and a heavy programme of investments requiring external financing.

Pricing pressure hurts CMB

By John Ridding

CARNAUDMETALBOX (CMB), the Anglo-French packaging group, yesterday announced a 7 per cent fall in first-half net profits. It warned of a similar decline during the second six months.

The shares closed down FFr10.5 at FFr198.5.

The company reported net profits of FFr509m ($89.8m) for the first half of 1993, compared with FFr549m in the same period last year.

Sales declined 6 per cent to FFr11.89bn.

Mr Jürgen Hintz, chairman, said operating profits in the first half were "hit hard by severe pricing pressure in European beverage cans and some exceptional events in Asia and Africa".

These included problems at its Singapore plant concerning the conversion from steel to aluminium drinks cans, and disruptions to supplies in Africa, particularly in Nigeria where the group's operations suffered from fuel shortages.

The group chairman said: "We are not expecting a net profit improvement for the rest of this year because recessionary pressures in Europe have been worse than expected in recent months and are not likely to ease soon."

In response to the difficult markets, the company said it was planning to cut production capacity, and would close a plant in Germany this year. Mr Hintz said the group intended to raise prices next year in an attempt to restore falling margins.

Despite the fall in profits and the difficult outlook, Mr Hintz described the figures as a "solid net result".

The company said the downturn during the period had been exaggerated by the impact of currency movements.

Excluding currency factors, net profits would have risen by 3 per cent, rather than declining 7 per cent.

The fall in operating profits, from FFr1.23bn to FFr974m, would also have been much smaller.

KHD loss deepens to DM98m

By David Waller in Frankfurt

GROUP losses at Klockner-Humbolt-Deutz, the German engineering group, more than trebled in the first six months of the current year. It said the impact of the recession in Germany had turned out to be worse than expected.

Despite the loss of DM98m ($61.25m) – up from a DM29m loss in the first half of last year – KHD said it expected to break even for the year as a whole. It said extensive rationalisation measures had led to a permanent lowering of the group's break-even point.

The group will take some DM300m of restructuring costs "below the line" as extraordinary expenditure, reflecting the cost of shedding 2,500 jobs during the year.

Sales for the first six months dropped 21 per cent to DM1.28bn, and order intake fell 23 per cent to DM1.66bn. The drop in domestic demand for machinery was behind these falls, the group said.

The year-on-year fall in orders concealed the fact that the order book itself was 16 per cent higher than at the beginning of the year.

KHD saw no short-term prospect of recovery in the European markets for its motors, and agricultural products such as tractors.

Gota Bank to spin off problem loans

By Christopher Brown-Humes in Stockholm

GOTA BANK, the Swedish state-owned bank, is to spin off SKr43bn ($5.4bn) worth of problem loans into a separate bank to facilitate the disposal of its healthy activities before the year-end.

All problem credits valued at more than SKr5m will be transferred to the unit, Retriva AB, by the end of the year.

Although Retriva will initially be a wholly-owned company, it is almost certain to follow Securum, the bad loan bank for Nordbanken, in being split off and taken over by the state.

The Swedish bank support authority, which is overseeing the reconstruction of Gota Bank, said yesterday it had decided to siphon off the problem loans to get a better price for the bank's healthy assets, valued at SKr80bn.

It also stressed that Gota's problem loans could be wound down more effectively if they were part of a separate unit. Details of how Retriva is to be financed during the liquidation phase were not revealed.

Around 65 per cent of Retriva's problem loans are linked to real estate. It will be managing 1,200 properties, around half of which it expects to purchase over the next few years. The long-term aim is to dispose of all the properties, but gradually so as not to depress market prices.

The state has provided SKr15bn in guarantees to help Gota Bank meet minimum capital adequacy requirements during a period of heavy credit losses.

Final bids for the bank's healthy activities, which made a SKr836m operating profit in the first six months, have to be received by September 23.

INTERNATIONAL COMPANIES AND FINANCE

Moody's returns Chrysler debt to investment grade

By Martin Dickson in New York

CHRYSLER, the US carmaker, reached a significant milestone on its path back to financial health when Moody's Investors Service, the credit information agency, restored its debt to investment grade status after 31 months in the speculative category.

The upgrading concerns some $13bn of borrowings.

Moody's is one of the two leading credit rating agencies. Its upgrade should allow Chrysler Financial, the group's financial services business, to raise money on somewhat finer terms, although the debt market is already pricing the subsidiary's borrowings at close to investment status.

However, Chrysler also needs an investment grade rating from Standard & Poor's, the other leading agency, to achieve a significant reduction in interest costs on some of its other borrowings.

S&P announced in June it was reviewing the company for a possible upgrade to investment status. However, Mr Scott Sprinzen, an S&P analyst, said yesterday the agency would not finish its review until Chrysler had completed this autumn's negotiations with the United Auto Workers on a new labour contract.

Chrysler fell to junk bond status early in 1991 when it was entering a severe industry recession with a weak product line-up and strained balance sheet. Many analysts questioned whether it could survive as an independent company.

Over the past 18 months it has clawed its way back to financial health, thanks to asset sales, cost-cutting and a range of hot-selling new products.

Moody's, which raised Chrysler's senior debt two notches to Baa3 from Ba2, said the ratings remained under review for a further upgrade. This would depend partly on the outcome of the labour negotiations.

It said yesterday's action "recognised the improving trends in Chrysler's operating performance" and the potential for "further earnings and cash-flow advances which will strengthen the company's balance sheet and debt-protection measurements".

European spice units in plan for new venture

By Richard Waters in New York

THE European herb and spice businesses of two US food processing companies and a German herb and spice concern are being combined to create a venture with sales of around $300m a year. Rabobank, the Dutch bank, will finance the venture, known as European Spice Partners, and take a 25 per cent stake.

The deal brings together the European herb and spice operations of McCormick, a Maryland-based specialist in spices and seasonings, and the larger CPC International, a corn refiner and maker of grocery products based in New Jersey whose products include Knorr soups, Hellmann's mayonnaise and Mazola corn oil.

Each will own 37.5 per cent of the new joint venture, with the remaining shares held by Rabobank. The terms of the deal were not disclosed.

The new company would account for around 15 per cent of the $1.4bn European market for retail and catering herbs, the companies said.

The two US companies' other European operations, including those in "industrial" herbs and spices (those sold to food processors or to fast-food companies), will remain separate, although both companies said further co-operation in Europe may follow.

CPC, which last year generated $3.6bn of its $6.6bn sales in Europe, said: "We are bringing the infrastructure and the experience of operating in Europe; McCormick is bringing its experience in the herb and spice business."

The new venture will be based around McCormick's retail and catering herb and spice operations in the UK, Switzerland and Germany. The company also has licensing operations in Finland and Spain.

CPC will contribute its own herb and spice business in Germany and Ireland and an unspecified amount of cash.

The transaction is subject to approval from the European Commission.

Papers highlight McCain divisions

By Bernard Simon in Toronto

TOP management at McCain Foods, the international frozen-foods group owned by Canada's McCain family, is riven with discord, according to documents filed in a New Brunswick court yesterday.

The documents were submitted by Mr Wallace McCain, the group's joint chief executive, in support of his efforts to overturn a resolution by McCain's board last month to oust him as president and chief executive by September 30. The court is due to hear Mr McCain's application later this month.

Mr McCain's action is directed primarily against his older brother and co-CEO, Harrison, whom he alleges has persistently undermined a plan put in place two years ago to provide for an orderly succession at the top of the company.

Both McCains are in their mid-60s. Two other brothers have died, but several of the four men's sons are also active in the business. Wallace's son Michael runs McCain's US subsidiary. Until the present dispute surfaced, Michael was widely assumed to be a front-runner for the CEO job when his father and uncle step down.

McCain, with annual sales of about C$3bn (US$2.2bn), is the world's largest potato-chip producer, with 20 factories in North America, Europe and Australia. Its other products include frozen juices and pizzas.

McCain's business has prospered even during the recession. But the documents filed yesterday show that the family has become increasingly pre-occupied in recent years with the succession issue.

Harrison wrote to one of his nephews last September that, "Wallace and I are no longer a single team running the McCain Group. A happy situation which for 30 years saw us agreeing appropriate courses of action, mutually supporting each other and letting each have a veto over important decisions has been substantially fractured."

Protracted negotiations over the past six months to solve the succession dispute have come to naught. They have culminated in Wallace making a C$1bn offer to buy the McCain shares not already held by his branch of the family.

Wallace and Harrison each own one-third of the McCain group's shares, with the rest divided among the families of their two deceased brothers.

As an alternative, Wallace has also proposed splitting the company in two roughly equal parts, with him acquiring the operations in North and South America and Asia, which he presently oversees. Harrison would take over the UK and European businesses.

Harrison has so far rejected these overtures and, instead, has spearheaded the efforts to remove Wallace from his present position. Harrison is due to file his statement of defence to Wallace's claims by September 13.

Greek Coca-Cola bottler advances 18%

By Kerin Hope in Athens

HELLENIC Bottling Company, the Coca-Cola franchise-holder for Greece, Bulgaria and Northern Ireland, increased operating profits for the first half of 1993 by 18.1 per cent to Dr9.1bn ($39.6m).

Turnover in the first half rose by 29.8 per cent to Dr54.7bn, partly due to the first-time consolidation of HBC's operation in Bulgaria, where it has invested almost $20m in five joint ventures with local soft drinks bottlers.

The Bulgarian Coca-Cola bottling operation, launched at the end of last year, posted first-half profits of Dr260m on sales of Dr3.15bn. HBC's earnings from Bulgaria amounted to Dr120m, the company said.

The company forecasts strong second-half growth in turnover in Bulgaria following the launch there of other soft drinks brands over the summer, together with the introduction of plastic bottles for Coca-Cola.

HBC's recent acquisition of Pet, a Greek manufacturer of plastic packaging, which controls two local fruit-juice producers, will also help the company position itself for further expansion in Balkan markets.

HBC also holds a 15 per cent stake in two joint ventures for bottling Coca-Cola in Romania. They were set up last year as part of an $18m investment by HBC's parent company, the Cyprus-based Leventis Group.

Production started over the summer at two new plants in northern Romania, covering almost 30 per cent of the market. Leventis shares the Romanian Coca-Cola franchise with the Atlanta-based parent company and a Turkish-owned bottling group.

Valeo resists sector decline

By John Ridding in Paris

VALEO, the French maker of car components, showed resistance to the downturn in the European car market by announcing first-half net profits of FFr383m ($68m), a fall of 6.1 per cent over the same period last year.

The company said the result was achieved despite the depressed European car market and reflected improved operating profit margins outside Europe and the benefits of its cost-cutting programme. The results included extraordinary charges of FFr223m.

Sales during the first six months of 1993 fell by 4.6 per cent to FFr10.59bn. Valeo said that most of this decline was the result of exchange rate movements and was achieved against a background of an 18 per cent fall in the European automotive market.

Valeo ascribed the relative strength of sales to expanding technology and the growing internationalisation of its operations.

The company said the continued depressed outlook for the European car market meant that it would pursue its policy of industrial and commercial adjustments and would seek to strengthen its position in growth markets such as Asia and the US.

The company's balance sheet strengthened during the period. At the end of June, net consolidated debt stood at FFr1.77bn compared with FFr2.15bn at the beginning of the year.

The debt to equity ratio declined from 30 per cent to 23 per cent during the same period.

Spending on research and development during the first half was FFr531m, while capital expenditure was FFr636m.

IBM PC arm sees rise in sales

THE IBM Personal Computer Company, formed a year ago as an independent unit within IBM, expects total sales volume to increase by 45 to 50 per cent in 1993 as a whole after growth of a similar magnitude in the first eight months of the year, the head of its non-American activities, Mr Bill McCracken said, Reuter reports from Munich.

Mr McCracken said that the unit would show a profit in its first business year but gave no detailed figures.

Brazilian steel deal probe

By Bill Hinchberger in Sao Paulo

BRAZILIAN government officials were yesterday discussing anti-trust implications of the acquisition of Cosipa, the recently-privatised Brazilian steel producer, by Usiminas.

If approved by the government, the sale would give Usiminas, itself privatised in 1991, control over 61 per cent of Brazilian output in flat rolled steel and all of its output in heavy steel plates, said Mr Rui Coutinho do Nascimento, president of the Administrative Council for the Defence of the Economy (CADE).

Mr Coutinho was yesterday discussing the situation with Brazil's minister of mines and energy, Mr Paulino Cicero.

The acquisition of Cosipa by Usiminas could be annulled if CADE, the justice ministry agency responsible for anti-trust investigations, decides that the deal would result in over-concentration in the steel industry, said the official.

Nikko Kyodo in plan to restructure US subsidiary

By Michiyo Nakamoto in Tokyo

NIKKO Kyodo, the Japanese mining and oil refining group, plans to restructure Gould, its US electronics subsidiary and the world's largest manufacturer of copper foil, which it bought five years ago for $1.1bn.

Nikko will liquidate Gould and its stock holding company, Nippon Mining US, and transfer Gould's operations to two new companies it will set up in the US.

The move by the Japanese company, which was formed in December last year through the merger of Nippon Mining and Kyodo Oil, reflects difficulties in turning round Gould.

Gould, which was acquired by Nippon Mining, has suffered a downturn in its main businesses and run up heavy debts.

Nikko Kyodo will book an extraordinary loss of Y90bn ($865m) due to the liquidation of the company. As a result it has revised downwards after-tax profits to Y4bn from Y33bn. The company's shares yesterday fell 6 per cent to Y510.

The US company has had problems with its semiconductor and defence electronics businesses for a number of years. Nippon Mining has invested about Y100bn in Gould which has chalked up recurring losses of $440m and debts of $890m.

Nikko will set up Gould Electronics to take on Gould's copper foil and fuses businesses and Gould Instruments to carry on its measuring instruments operations.

The Japanese company said that it had not changed its view that Gould's businesses were crucial to group long-term strategy.

Kittaka seeks court protection

By Emiko Terazono in Tokyo

KITTAKA, a Japanese chain store operator, has filed for protection under the bankruptcy law, becoming the second convenience store operator to seek court protection in the past three months.

Unlike other retailers, Japan's convenience stores have held up well against a background of sharp falls in consumer spending. However, increasing competition and poor summer weather have started to hurt some convenience store operators.

Although not stock market listed, Kittaka's Kei-Mart convenience store chain is one of the large scale national chains, with 1,098 outlets.

According to Teikoku Databank, a private credit research agency, the company has liabilities totalling Y33bn ($317m).

Teikoku said Kittaka suffered from intensive competition. In July, Niko Mart, also an unlisted convenience store chain, filed for court protection after expanding its operations too quickly.

Meanwhile, two leading supermarkets have revised down their profit estimates following a long rainy season and an unusually cool summer.

Ito-Yokado, said annual pre-tax profits would remain flat at Y97.5bn rather than a 2 per cent rise to Y99.5bn, while Nichii expects annual pre-tax profits to fall 17 per cent to Y20bn rather than a 4 per cent increase to Y25.2bn.

Honda put under credit review by S&P

By William Dawkins in Tokyo

THE credit rating of Honda, the Japanese car group, was yesterday placed under review for a possible downgrade by Moody's, the international credit rating agency.

The move was expected, following last month's announcement by Standard & Poor's that it is reviewing the credit ratings of Honda, as well as Nissan and Toyota, because of poor domestic demand and the damage to export price competitiveness inflicted by the yen's strength.

Moody's gave similar reasons for reviewing Honda, which reported a 41 per cent profits fall in the year to June. Honda's exports form a higher proportion of total sales than is the case for Nissan and Toyota.

The agency said it would examine the group's ability to use its US and European plants to offset the erosion of its price competitiveness outside Japan. It would study the implications of this strategy for Honda's domestic manufacturing and employment base and assess the outlook for new car launches.

TNT losses mount as directors quit

By Nikki Tait in Sydney

TNT, the Australian transport group which saw five directors resign last week after a boardroom disagreement, yesterday announced an operating loss after tax and abnormal items of A$256.7m (US$171.1m) for the year ended June, on an equity-accounted basis. This compares with a A$195.4m deficit 12 months earlier.

However, the large loss stemmed partly from some sizeable abnormal items. TNT said that its operating loss before these items, but after tax, stood at A$44.7m, compared with a loss of $100m in 1991-92.

Before tax, the company made a small operating profit of A$14.2m, in contrast to last time's deficit of A$75m.

Last year TNT's revenues fell from A$6.06bn, to A$5.52bn. The company said this was due to the flotation of TNT Freightways in February 1992, and the creation of the international express delivery business GD Express Worldwide as a joint venture in October 1991.

Abnormal items, after tax, amounted to A$212m, up from A$95.4m in the previous year. Included in these charges were a write-down of future income tax benefits, to comply with a new accounting standard; unrealised foreign currency losses; provisions related to the carrying value of the Sydney Monorail, and a further, previously-announced provision related to GD Express Worldwide.

TNT announced yesterday that Mr Morley Koffman had resigned from the board due to personal commitments and his inability regularly to attend board meetings in Australia, although he will remain non-executive chairman of TNT Canada.

Mr Morley Koffman is the sixth director to quit recently. Last week, Sir Peter Abeles, TNT's co-founder, and four other board members left after a disagreement about future company strategy.

New chairman shows legal cool

THE loss of six board directors in as many days, the announcement of a A$256.8m bottom-line loss, and the need to grapple with more than A$1bn worth of balance sheet debt, might seem like a severe headache for anyone. But Fred Millar, former senior partner of a Sydney law firm and now faced with the unenviable task of leading Australian transport conglomerate TNT out of its troubles, was playing it cool yesterday.

"If I could be assured of as much fun as I've been having recently, I'd stay on forever," the new chairman remarked, with only a hint of sarcasm, when the question of his own tenure was raised.

Keeping a low profile: New managing director David Mortimer

Shareholders may be slightly less sanguine. While the past week's boardroom upheavals at the transport group have helped to clarify the future strategy, analysts have few doubts that there is an uphill task ahead. TNT shares, which were trading at over A$3 in the late 1980s, now stand at A$1.38. Dividends were axed last year, and are unlikely to restart before 1995.

Perhaps the least of TNT's problems are now in the boardroom. Last week's departure of Sir Peter Abeles, the rags-to-riches tycoon who arrived from Hungary in 1949 and quickly built up the Alltran trucking company which later merged with Thomas Nationwide Transport, marks the end of an era.

Sir Peter, colourful and controversial, once ruled TNT in autocratic style, but stepped down as managing director last year. His dramatic departure from the board last week – along with four other directors – followed disagreements over how the group should tackle its parlous balance sheet. The net result was to leave control firmly in the hands of Mr Millar and TNT's new, lower profile managing director, Mr David Mortimer.

Yesterday, Mr Millar indicated that some of the boardroom vacancies will be filled, but that the total number of directors would probably shrink.

Much more delicate, even without Sir Peter's distracting influence, is the question of how TNT addresses its debt burden. According to Mr Mortimer, net debt on the balance sheet stands at around A$1.12bn. More than A$400m falls due for repayment in the current year, and a similar amount in fiscal 1995.

Mr Mortimer's solution centres on a continued asset sale programme, which has already raised some A$220m, and which should bring in another A$200m over the next 12 months. On top of that, Commonwealth Bank of Australia last week provided a new A$352m facility, and TNT has said that it is "actively exploring opportunities for a significant capital raising". Mr Mortimer is not inclined to talk about timing or numbers – but rumours of some form of quasi-equity offering in the A$300m range have circulated recently.

Will that suffice? "Fiscal 1994 has never been the problem," said one analyst at Baring Brothers yesterday. "The question has always been 1995. With the CBA facility, they're some way towards helping the situation."

The third challenge is operating performance. Here, analysts saw some grounds for encouragement in the latest figures. The large bottom-line losses contained some hefty abnormal items, and TNT was quick to stress that there was a slim A$14.2m operating profit before these charges (on an equity-accounted basis). This compared with a A$75m operating deficit in the previous 12 months.

But, examined more closely, the results concealed some mixed performances. On the plus side, the Australian freight and transport operations were back in the black, while the domestic freight operations in Germany, Italy and the UK held their ground and contributed satisfactorily. The same could not be said for the Spanish business, whose deterioration was blamed largely on the economy. Meanwhile, TNT's share of the losses at GD Express Worldwide, its 50 per cent-owned international express freight venture, stood at A$48.3m before abnormal items.

On the last front, TNT says that an eight-part restructuring plan is being implemented, aimed at cutting costs and improving efficiency. The objective is to eliminate losses by June 1995. Whether that is possible remains to be seen.

The final piece of good news, meanwhile, was a positive contribution from Ansett, the airline business owned jointly by TNT and Rupert Murdoch's News Corporation. Accordingly, TNT is no longer in a hurry to leave the business, saying that its 50 per cent holding is "not considered for sale," although the company does back plans to bring new investors into Ansett. In fact, Mr Millar was keen to emphasise the point: "Ansett is not causing TNT any problem at the moment," he said firmly, seeming relieved to be spared one headache at least.

Nikki Tait

HK and China Gas 19% ahead

By Simon Davies in Hong Kong

HONG KONG and China Gas, Hong Kong's monopoly gas supplier controlled by the Lee family's Henderson Investment, has increased first-half net profit 19 per cent to HK$560.2m (US$72.7m) up from $HK472.2m in 1992.

Turnover was HK$1.68bn, up from HK$1.53bn, due to a steady increase in Towngas sales. The company is paying an interim dividend of 12 cents a share, up from 10 cents in 1992.

Hong Kong Gas recently completed Phase II of its new Tai Po plant, which, according to Mr Lee Shau-kee, chairman, will provide sufficient capacity "to meet demand until the early 2000s".

Air NZ profits advance as route revenue climbs

By Terry Hall in Wellington

AIR New Zealand yesterday announced a 21.2 per cent increase in profits to NZ$139.5m (US$76.6m) for the year ended June, helped by higher revenue on its routes to Asia, the US and Europe.

Directors said that while the airline continued to outperform most of its international competitors, returns were still less than needed to appropriately reward shareholders and finance growth.

The profit was some NZ$15m higher than analysts had been expecting, and the improvement was unexpectedly helped by abnormal gains of NZ$3.7m. Last year the airline reported abnormal losses of NZ$13.1m.

Air NZ, whose major shareholders are Brierley Investments and Qantas, reported operating earnings of NZ$140.3m, against NZ$134.3m. Equity accounted losses of associates were NZ$4.5m, against NZ$6m.

Directors said that the group was budgeting for further growth in passenger traffic on Asian routes. However, it expected little if any growth on internal routes or services to Australia and only modest growth in the UK, Europe and US traffic.

The company said it had successfully handled an increase in 8.9 per cent in additional capacity.

The dividend is being maintained at an unchanged six cents a share, bringing the total to 10 cents this year.

Lufthansa in deal with Varig

DEUTSCHE Lufthansa has signed a co-operation agreement with the Varig, the Brazilian airline, Reuter reports from Frankfurt.

Mr Juergen Weber, chairman, said: "For Lufthansa, the agreement with South America's biggest airline is a further step on the way to a tight global network of professional partnerships."

The two companies planned to offer an additional flight between Frankfurt and Brazil, meaning each that airline would offer a total of six flights per week between the two regions.

This means that there would be a daily non-stop flight to Sao Paulo as well as five flights to Rio de Janeiro, Deutsche Lufthansa said.

INTERNATIONAL CAPITAL MARKETS

Long-dated US Treasury yields dip to record lows

By Conner Middelmann in London and Patrick Harverson in New York

THE extraordinary rally in longer-dated US Treasury securities showed no signs of faltering yesterday morning, as yields dropped to new historic lows with traders continuing to execute yield curve-flattening trades.

By midday, the benchmark 30-year government bond was up 3/32 at 105 21/32, yielding 5.858 per cent. At the short end, the two-year note was down 1/32 at 100 1/8, to yield 3.759 per cent.

For the second consecutive day prices at opposite ends of the maturity spectrum moved in different directions because dealers were selling shorter-dated securities and buying bonds in a strategy aimed at flattening the yield curve.

The short end was also undermined by Tuesday's comments by Federal Reserve chairman Mr Alan Greenspan, who told a senior congressman that real short-term interest rates were lower than appropriate.

GOVERNMENT BONDS

■ MOST European bond markets traded nervously in technical ranges as dealers focused on today's meeting of the Bundesbank's central bank council.

Market participants appear evenly split over the likelihood of a cut in Germany's 6.75 per cent discount rate.

A global bond market survey conducted by analysis firm IDEA shows that 38 per cent of respondents expect a discount-rate cut this week, 38 per cent expect it at the next meeting on September 23, and 24 per cent forecast an October cut. Some 80 per cent of those who see an easing expect a ½-point rate cut.

■ AFTER a steady start, German bund futures weakened in the afternoon as traders worried that a German rate cut could spark a sell-off after the recent rally which has left bunds technically overbought.

In the past, rate cuts have often triggered profit-taking while unchanged rates have supported prices as players shifted their easing hopes to the following meeting. Now, traders worry a cut in rates today may put off the next easing for a while. Also, they fear the Bundesbank may leave the repo rate unchanged at 6.80 per cent, keeping the impact of a rate cut to the bare minimum. The December bund future traded on Liffe ended 0.12 point lower at 98.52.

However, strong demand for 10-year cash bonds pushed the 6½ per cent 10-year benchmark some 0.10 point higher. The DM4.03bn tranche of these bonds auctioned yesterday was snapped up by investors although the issue price of an average 102.73 was deemed expensive. Retail demand was so strong that it left many banks short, according to traders. "Retail took everything – there's about a DM2bn shortage out there," said a London dealer.

■ GILTS continued to firm early in the day on technical and retail buying but shed most of their early gains in the afternoon to end only slightly firmer.

Prices remain underpinned by the same scenario that has been fuelling the US bond rally: economic recovery accompanied by low inflation. Buying fizzled out in the afternoon, however, after the December long gilt future failed to break key technical resistance and closed at 114.03, up 0.01 point from Tuesday.

■ IN THE French bond market, cash investors were sidelined ahead of the Bundesbank Council meeting and ceded the stage to professional futures players.

Traders tried to push the September notional bond future on the Matif futures exchange to a new high. While the December contract did post a new high at 123.72, the September future reached 123.94, four ticks short of its historical peak. A breach of 123.98 would have triggered heavy buying, according to dealers, but failure to do so caused profit-taking and the contract slipped to close at 123.58, up 0.06 point.

■ WHILE the long end of the Belgian yield curve was steady the shorter maturities were very volatile, buffeted by swings in the currency on the foreign exchanges. Prices of short-to medium-dated bonds jumped nearly a point in the morning, only to shed these gains in the afternoon on fears that unchanged German rates today could put further pressure on the Belgian franc.

■ JUST before the close of a range-bound trading day, the Japanese bond future jumped. Traders tried to push the contract through 112.00. But the contract peaked at 111.99 and slipped back on profit-taking, leaving it to close 0.18 point higher on the day at 111.84.

FT FIXED INTEREST INDICES

	Sep 8	Sep 7	Sep 6	Sep 3	Sep 2	Year ago	High *	Low *
Govt Secs (UK)	102.69	102.47	101.85	102.02	102.15	88.53	102.69	93.28
Fixed Interest	124.88	124.51	124.14	124.67	124.88	104.90	125.20	108.87

Basis 100: Government Securities 15/10/26; Fixed Interest 1928.
* for 1993. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75)
Fixed Interest high since compilation: 125.20 (1/9/93), low 50.53 (3/1/75)

GILT EDGED ACTIVITY

Indices*	Sep 7	Sep 6	Sep 3	Sep 2	Sep 1
Gilt Edged Bargains	95.4	91.1	129.7	135.8	240.9
5-Day average	138.6	154.5	164.8	146.2	138.5

* SE activity indices rebased 1974

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		9.500	08/03	120.7239	+0.321	6.62	6.60	6.85
BELGIUM		9.000	03/03	112.2000	+0.400	7.10	7.11	7.07
CANADA *		7.500	12/03	108.1900	+0.340	6.65	6.75	7.00
DENMARK		8.000	05/03	108.4000	+0.550	6.78	6.64	6.75
FRANCE	BTAN	5.750	11/98	100.4434	+0.044	5.64	5.62	5.82
	OAT	6.750	10/03	104.4400	+0.100	6.14	6.13	6.41
GERMANY		6.500	07/03	102.6850	+0.110	6.13	6.14	6.39
ITALY		11.500	03/03	112.4950	-0.155	9.70†	9.65	10.38
JAPAN	No 119	4.600	06/99	106.0234	+0.125	3.55	3.60	3.83
	No 157	4.500	06/03	103.1694	-0.073	4.06	4.05	4.13
NETHERLANDS		7.000	02/03	106.9300	-	6.01	6.04	6.20
SPAIN		10.900	08/03	111.8500	-0.050	9.03	8.98	9.57
UK GILTS		7.250	03/98	103-26	-	6.28	6.26	6.39
		8.000	06/03	108-20	+4/32	6.77	6.80	7.07
		9.000	10/08	117-01	+8/32	7.14	7.17	7.50
US TREASURY *		5.750	08/03	104-04	+12/32	5.21	5.44	5.61
		6.250	08/23	106-21	+2/32	5.85	6.08	6.48

London closing, *denotes New York morning session. Yields: Local market standard
† Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.)
Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

Traffic builds up on the Access trading highway

Laurie Morse examines the after-hours trading system's modest success while the fate of Globex remains uncertain

AS RIVAL Chicago derivatives exchanges battle over the future of Globex, the after-hours electronic futures trading system, the New York Mercantile Exchange's Access computer system is building volume quietly.

The Access system, launched in June, trades energy futures contracts overnight, and is currently confined to about 80 subscribers in the US, with 10 Access terminals scheduled to become operational in London late this month.

In comparison with Globex, which carries financial contracts from three exchanges across 350 terminals on three continents, Access is a modest undertaking. Globex was developed jointly by Reuters, the Chicago Board of Trade and Chicago Mercantile Exchange at a cost of $78m, while Access, which offers only Nymex products, was set up at a fraction of that cost.

It is being closely watched, however, because it is the first electronic highway for 24-hour trading in global commodities – crude oil futures and other energy derivatives.

Turnover on Access is slim but respectable, averaging below 2,000 contracts per night. Traders who track the system expect volume to grow, but say that it will not eclipse floor trading in New York or at the International Petroleum Exchange in London.

Access traded 53,805 contracts in July and August, slightly behind Globex's 61,010 volume for its first two months of operation in July and August last year, but above Nymex's conservative expectations.

North American oil traders are using the system to update futures positions at the start of trading in other time zones; Nymex data show Access is busiest between 6pm and 8pm New York time, and between 4am and 8am. Very little volume is generated between 8pm and 4am, when New York and London markets are closed.

While Access enjoys its modest success, the Globex partnership appears to be torn asunder by recriminations. Last month the Chicago Board of Trade was accused by its Globex partners, the Chicago Mercantile Exchange and Reuters, of blocking Globex's expansion. CBOT officials have retorted that Reuters has been slow to respond to Globex users' needs, and that Reuters' Globex fees are far more expensive than those for its own local system, called Project A. CBOT directors widened the rift recently by supporting a referendum that could put the CBOT's active Treasury bond and note futures on Project A, rather than Globex, during late afternoon hours.

As the CBOT backs away from Globex, its Chicago rival, the CME, is working hard to promote the system. Mr Jack Sandner, chairman of the CME and of Globex, is planning a fresh marketing push for Globex, and announced on Tuesday that the CME would add its stock index futures contracts to the system on September 20.

While Globex has expanded steadily this year, little growth has originated in the US. Of 566,725 contracts traded on Globex in August, 87 per cent was generated by Paris's Matif, which is phasing out its own local after-hours computer trading system.

The fate of Globex, and the direction of innovative technology within the futures industry, are likely to be prime topics at the international gathering of futures officials and derivatives regulators in Burgenstock, Switzerland, which starts today.

Success for World Bank's $1.25bn global offering

By Antonia Sharpe

THE World Bank had the stage to itself for the successful launch of its ninth dollar global bond offering yesterday, as the rest of the international bond market paused after the heavy issuance on Tuesday.

The World Bank's $1.25bn offering of 10-year global bonds was priced to yield 10 basis points over the yield on the 5⅜ per cent US Treasury due 2003, at the lower end of the indicated range.

This is the tightest yield spread over US Treasuries which the World Bank has achieved on its 10-year dollar global bonds, according to the joint lead managers, Lehman Brothers and Nomura International.

This partly reflects the general tightening of spreads in the market as well as the fact that the offering was significantly over-subscribed. Yesterday's issue is likely to be the World Bank's last global dollar bond until next autumn.

The tight spread and the balanced distribution worldwide also show that the World Bank has achieved the main aims of its global bond programme which was launched four years ago. They were to achieve a truly global distribution and a single world price for its bonds.

INTERNATIONAL BONDS

"The widespread sales reflect the realisation of the global bond concept," said Mr Peter Horvath, senior financial officer in the World Bank's financial operations department.

Just over 40 per cent of the offering was placed in Japan and eastern Asia, and the remainder was sold in virtually equal amounts in Europe and the US. The bonds were trading at 99.53-99.58 yesterday, representing a narrow bid-offer spread of just five basis points.

Another goal of the global bond programme has been to raise the World Bank's profile within the US, and the large US allocation in yesterday's offering indicates that this has been accomplished. "The World Bank is now in the same category as US federal agencies," said Lehman Brothers.

Meanwhile, Chinese finance ministry officials were in London yesterday on the last leg of their international roadshow to publicise the People's Republic of China's forthcoming Y30bn five-year Eurobond offering.

The offering, via Nomura International, is likely to be launched this morning, and the bonds could be priced to yield between 75 and 85 basis points over the yield on underlying Japanese government bonds.

This is China's second Eurobond offering – it raised DM300m through a five-year deal in 1987 which has since expired – and also marks its return to the international bond market since the Tiananmen Square massacre in 1989.

Mr Zhao Xiaoyu, divisional head of the finance ministry's foreign affairs department, said the offering's aim was to re-establish China's name in the international bond market.

The proceeds of the issue will be kept in yen and will be used to finance various infrastructure projects. The repayment of the bonds would be incorporated into the budgets of those projects, said Mr Gao Jian, deputy director at the finance ministry's state debt management department.

China has an indicated investment grade rating of BBB from Standard & Poor's and Baa1 from Moody's. Moody's is understood to be reviewing its rating following a meeting with Chinese finance ministry officials.

Elsewhere, Dhana Siam Finance and Securities Company was the second Thai borrower in less than a week to tap the Eurodollar sector with a convertible bond. The issue is part of a general drive to widen the ownership of Thai shares. An official at the lead manager CSFB said the bonds will be priced early next week.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
World Bank	1.25bn	5.25#	99.401R	Sep.2003	0.325R	+10 (5⅜%-03)	Lehman Brothers/ Nomura
Orix Ireland Finance‡	100	(a)	100	Sep.1997	0.07	-	Sanwa Intl. Finance, HK
Thermo Instrument Systems(b)§	60	3.75#	100	Sep.2000	2.5	-	Lehman Brothers Intl.
BIC Banco	50	10#	99.875R	Mar.1996	1.25R	+815 (d)	Socimer Intl. Finance
Dhana Siam Fin. & Secs.(c)§	45	(4-4½)	100	Oct.2003	2.5	-	CSFB
YEN							
Mitsubishi Corp. Finance	10bn	3.60	100.25R	Oct.1997	0.25R	-	Fuji Intl. Finance

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. §Convertible. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) Coupon pays 3-month Libor + 0.47% for 1st 3 years and 3-month Libor flat in final year. Puttable on 17/9/96 at par. b) Conversion price: $31⅜. Callable from 15/9/96 at 101% and from 15/9/97 at par. c) Fixing: approx. 15/9/93. Conversion premium indicated at 5-8%. Mandatory conversion after 3 years subject to 140% rule. d) Spread is over the interpolated yield curve.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

[illegible]

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	60	1	19
Other Fixed Interest	8	5	4
Commercial, Industrial	184	357	866
Financial & Property	143	183	405
Oil & Gas	11	30	40
Plantations	0	0	6
Mines	4	86	43
Others	27	58	35
Totals	445	733	1,602

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

Stock	Closing Price p	+or-
Crockfords	4pm	-½
Littlewoods	23pm	
Rolls Royce	17pm	
Usborne	1pm	-½
Wickes	10pm	-1
Wilson	¼pm	

‡ Issued at a premium. † Price offered to public.
For other notes please refer to the Guide to the London Share Service.

TRADITIONAL OPTIONS

- First Dealings Aug. 23
- Last Dealings Sept. 10
- Last Declarations Nov. 25
- For settlement Dec. 6

3-month call rate indications are shown in Saturday editions.

Calls: Alliance Res., Alvis, BM Group, Caverdale, Enterprise Computer, Flextech, Harmony Leisure, Monument Oil & Gas, Tie Rack, Transfer Tech., TR Tech. and Tullow Oil. Put: Euro Disney. Call: Ratners.

FT-SE ACTUARIES INDICES

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LIFFE EQUITY OPTIONS

[illegible]

September 8 Total Contracts 40,478
Calls 21,227 Puts 19,246
FT-SE Index Calls 5,687 Puts 10,727
Euro FT-SE Calls 1,408 Puts 534
*Underlying security price. † Long dated expiry months.
Premiums shown are based on closing offer prices.

FT-ACTUARIES FIXED INTEREST INDICES

PRICE INDICES

		Wed Sep 8	Day's change %	Tue Sep 7	Accrued interest	xd adj. 1993 to date
	British Government					
1	Up to 5 years (23)	129.01	+0.05	128.94	1.42	7.61
2	5-15 years (23)	156.78	+0.23	156.42	1.82	8.38
3	Over 15 years (9)	175.95	+0.33	175.38	0.45	9.70
4	Irredeemables (6)	206.84	+0.82	205.16	2.54	8.83
5	All stocks (61)	151.93	+0.21	151.82	1.62	9.03
	Index-Linked					
6	Up to 5 years (2)	187.37	+0.04	187.29	0.58	3.41
7	Over 5 years (11)	183.12	+0.09	182.95	0.93	3.42
8	All stocks (13)	182.67	+0.09	182.50	0.88	3.41
9	Debs & Loans (65)	144.60	+0.22	144.28	2.05	7.96

AVERAGE GROSS REDEMPTION YIELDS

			Wed Sep 8	Tue Sep 7	Year ago (approx.)
	British Government				
1	Low	5 years	6.32	6.34	8.89
2	Coupons	15 years	6.98	7.02	8.89
3	(0%-7¾%)	20 years	7.11	7.16	8.89
4	Medium	5 years	6.43	6.46	8.75
5	Coupons	15 years	7.12	7.15	9.11
6	(8%-10¾%)	20 years	7.21	7.25	8.99
7	High	5 years	6.63	6.65	10.01
8	Coupons	15 years	7.37	7.40	9.35
9	(11%-)	20 years	7.39	7.42	9.18
10	Irredeemables (Flat Yield)		7.32	7.38	9.08
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	2.52	2.52	4.74
12	Inflation rate 5%	Over 5 yrs.	3.22	3.22	4.29
13	Inflation rate 10%	Up to 5 yrs.	1.75	1.75	4.00
14	Inflation rate 10%	Over 5 yrs.	3.05	3.05	4.51
15	Debs &	5 years	7.61	7.61	10.69
16	Loans	15 years	8.02	8.04	10.48
17		25 years	8.18	8.20	10.33

Portals rises to £14m and mills at full capacity

By Paul Taylor

PORTALS GROUP, the specialist paper and environmental protection and control products group, yesterday reported a 9 per cent increase in interim pre-tax profits and said a strong inflow of orders meant that its mills were working at full capacity.

Pre-tax profits grew from £12.4m to £13.5m in the six months to June 30, on turnover from continuing operations of £91.2m (£83.9m).

Discontinued operations added another £7.23m to turnover in the comparable period.

Earnings per share, fully diluted, increased by 9 per cent to 14.89p (13.68p) and the interim dividend is raised to 5.25p (5p).

Mr John Lloyd, managing director, said Portals was pleased to have increased sales and profits in what remained a challenging commercial environment. Within papermaking he said orders were strong, but noted that "there is a production challenge to meet this demand."

The benefits of last autumn's devaluation had been used to improve competitiveness and boost volumes, rather than margins which already stand at about 20 per cent.

As a result there had been strong order inflows at all three papermaking companies. In particular Portals (Bathford) won three new overseas contracts and was recently awarded the DHSS contract to produce high security covers for pension and other allowance books, and JR Crompton, the round tea-bag maker, had "an excellent first half."

The security and specialist papermaking operations raised operating profits by 4 per cent to £9.9m on sales up by 10 per cent to £51.6m.

Results from the protection and control division were more mixed. The division lifted operating profits by 14 per cent to £3.6m on sales of £39.6m, an increase of 7 per cent.

Margins were higher than in the first half of 1992, but below the exceptionally high levels of the second half, while orders were maintained. The two core businesses within the division, Houseman and Computer Technology, performed well, but elsewhere the effects were felt of the increasingly difficult market in continental Europe.

The downturn in the French car market hit Ermeto's diesel tube business, while Vacuumatic suffered from the impact of the German recession.

Portals ended June with net cash of £7.1m, an improvement of £9.9m in the period although net cash fell to £1m on July 1 after payment of the 1992 final dividend.

The improvement in the cash position came after relatively low capital expenditure of £4.3m, the £1.8m acquisition of Sonoco Packaging Tapes, which manufactures the security threads found in banknotes, and a £1.6m increase in working capital, which were offset by the disposal of Airoil-Flaregas for £3.9m.

Phoenix Timber gives details of £3m refinancing plan

Shares in Phoenix Timber fell 1½p to 12¼p after announcing further details of its refinancing under which it is raising £2.94m to cut borrowings.

The Co-operation Retirement Benefit Fund has already subscribed £1.44m in £1 loans at par. These are now being offered to existing shareholders on the basis of £1 nominal for 10 shares held at a price of 111p each.

Some £1.5m is being raised by a rights issue of 5-for-8 and 12S for £16 nominal loan notes at 8p per share. The issue is underwritten by CRBF.

At the same time the 25p shares are being split into 5p ordinary and 20p deferred which are considered valueless.

As a result of the moves CRBF may end up with more than 30 per cent but the Takeover Panel has waived the need to make a full offer. Mr John Bushell, Mr Charles Benham and Mr Robert Ainsworth are leaving the board. Mr Duncan Saville, who is a director of CRBF, and Mr Lars Ahrell are to become directors.

CRBF said that it considered its investment to be long term and it intends to maintain the listing.

Charles Baynes advances to £3.27m

By Peter Pearse

CHARLES Baynes, which yesterday announced a rise in pre-tax profits from £1.88m to £3.27m for the first half of 1993, is to expand its distribution side with the acquisition of Buck & Hickman from P&O for a maximum of £32.48m cash.

"We love distribution businesses," said Mr John Perkins, finance director, adding that any company would like to acquire well and independently run, cash generative businesses from larger groups returning to their cores.

B&H, a distributor of engineers' tools, consumables and equipment in the UK, will keep its present management and will operate on a stand-alone basis within Baynes.

The purchase will be funded by the issue of some 34.5m 5.8p (net) mandatorily convertible preference shares at 100p each to raise about £33.3m net. They are convertible at 69p per share and will be available in an open offer to ordinary shareholders on a 1-for-4 basis. SG Warburg will subscribe for any shares not taken up in the offer.

Mr Perkins said that with an acquisition of this size, Baynes wanted the net profits of B&H to service the preference shares. In 1992, it made operating profits of £3.5m on turnover of £48.2m. At the end of 1992, its tangible assets were £20.3m; after deducting dividends to P&O and before an intra-group loan note of about £11m that Baynes is also acquiring, assets will fall to £15.5m at October 2.

Mr Perkins said that Baynes' balance sheet would remain strong: after the buy shareholders' funds will stand at about £40m after some £17m goodwill write-off from B&H.

Group operating profits in the half grew to £3.09m (£1.62m) on turnover up at £39.3m (£37.2m). Acquisitions in the period contributed £735,000 and £7.52m respectively. On an annualised basis continuing, existing, businesses made profits of £2.36m (£1.62m) on turnover flat at £31.8m. Margins were improved through job losses and Baynes capital expenditure programmes.

The interim dividend is lifted to 0.575p (0.525p), payable from adjusted earnings of 1.65p (1.05p) per share.

Reaching out for the sky screens

Raymond Snoddy looks behind the figures in the improving results from BSkyB

LAST WEEK when Mr Rupert Murdoch, chairman of News Corporation was in London we had the glitz, the live boa constrictors, all the new subscription television channels and the headline claim that British Sky Broadcasting was in profit.

Yesterday with Mr Murdoch back in Los Angeles, BSkyB, the parent company for Sky Television, released its financial results for the year to June 1993 in a much quieter vein and a raft of numbers and predictions about how the satellite market in the UK was moving.

BSkyB announced an operational profit of £61.5m, a turnround of £108m on the year. Mr Murdoch's News Corporation holds a 50 per cent stake in the satellite venture and Pearson, owners of the Financial Times, holds 17.5 per cent.

Turnover rose 63 per cent to £380m, 80 per cent of it coming from subscriptions to movie channels and the Sky Sports channel.

The financial structure of BSkyB is complex, bordering on the Byzantine. The operating figure is considered the most realistic basis for judging what is emerging from its start-up phase, however there was still a large pre-tax loss last year because of the interest charged on money invested by the founding shareholders.

Last year's interest on external debt of £100m was £8m but there was also a notional interest figure of £130m on shareholder debt of £1.2bn out of the total of £1.7bn invested in BSkyB so far.

Shareholder interest is accruing. The loans are convertible and could become equity to produce dramatic pre-tax profits if the shareholders decided this was more favourable than the present tax advantages.

More importantly BSkyB was cash positive throughout the year, did not draw down £34m of available funding and will start distributing cash back to its shareholders from January next year. Apart from News Corporation and Pearson, the main shareholders are Chargeurs of France and the Granada group.

Mr Neil Blackley, media analyst at Goldman Sachs said after the presentation: "I think it looks pretty good for the future. I think this is a very encouraging performance."

More important than how the shareholders treat interest payments is what is happening to subscription revenue, the future heart of the business now that BSkyB is almost exclusively a subscription service.

Mr Gary Davey, deputy managing director of BSkyB, said that the company was now the leading satellite television company in the world after attracting 700,000 new paying subscribers in the year to the end of June.

He was speaking on the day that Sky Sports was showing exclusive coverage of the England versus Poland World Cup qualifying game.

Going beyond the financial year Mr Davey said that 100,000 new movie subscribers were signed up in August and that the total number of subscribers paying for at least one of the premium movie services had now passed 2m.

BSkyB's internal research presented yesterday showed dish sales rising week on week from 11,000 a week in the first week of July to 22,000 a week in the last week of August.

The claimed rise is at least partly reflected in the latest estimates of the size of the UK satellite market by BARB, the official broadcasting ratings organisation owned by the BBC and ITV. BARB said that there were 2.5m dishes, not including cable, at the beginning of August and 2.57m dishes in place by the beginning of this month.

BSkyB also used BARB statistics to show that although 15.1 per cent of homes in the UK had satellites the figure for men aged 16-34 was 26.3 per cent and 24 per cent for children.

Mr Davey also quoted TGI, an independent researcher, to back his claim that the Sky audience was not disproportionately down-market.

The proportion of Sky homes with income below £9,999 a year was less than both the national average and that of ITV and Channel 4 viewers. Sky homes, the company said, with incomes between £10,000 and £24,999 and above £25,000 were all above the national average and ITV and Channel 4.

After hearing the presentation Mr Blackley said there was a growing danger that BSkyB "could become so dominant in the pay television market that cross-media ownership will become a serious political issue".

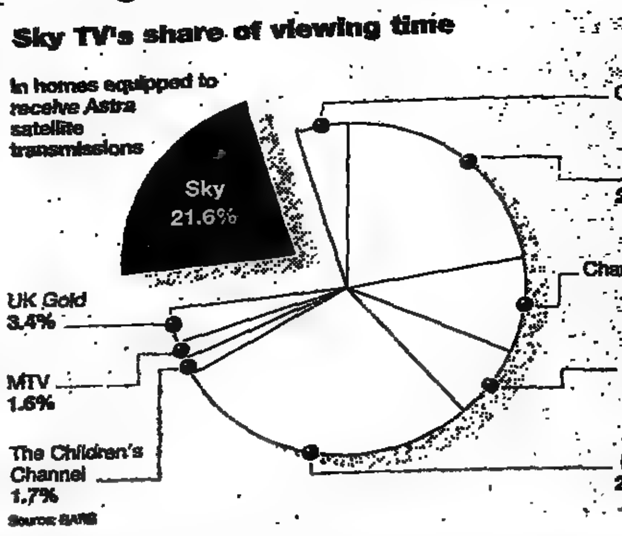
Yesterday BSkyB also confirmed that it would launch pay-per-view television – charging for individual events – sometime next year, although a starting date had not been decided.

"We have the technology and we have the ambition," Mr Davey said. A second Sky Sports channel will start in time for the English cricket team's winter tour of the West Indies and work continues on the possibility of launching a Sky arts channel sometime next year.

BSkyB's FINANCIAL PERFORMANCE (£m per week)

	Nov'90	Sep'92	Sep'93
Subscription revenue	1.2	4.9	7.0
Advertising & other revenue	0.4	1.1	1.5
Total income	1.6	6.1	8.5
Programming costs	5.1	3.6	4.0
Overheads	6.5	1.8	2.5
Total costs	11.6	5.4	6.5
Weekly operating profit/(loss)	(10.0)	0.7	2.0

Sky TV's share of viewing time



Source: BARB

Scotia looks for £30m from listing

By Clive Cookson, Science Editor

SCOTIA Holdings, a pharmaceutical company built on sales of evening primrose oil, will be floated on the London stock market next month with an expected capitalisation of about £160m.

The Scotia board yesterday approved final arrangements for the flotation, which is co-ordinated by Kleinwort Benson. According to the pathfinder prospectus, issued today, the company aims to raise about £30m based on a share price between 260p and 290p.

Dr David Horrobin, chief executive, said most of the proceeds would be used to fund the final development of six drugs now undergoing clinical trials. They included treatments for cancer, arthritis, heart disease and complications of diabetes.

Dr Horrobin, whose background is in academic medicine, has followed a clear strategy ever since he founded the company – then known as Efamol – in 1979. He quickly established a revenue stream by selling nutritional supplements made of seed oil from the evening primrose plant; sales were promoted by clinical studies showing the oil's health benefits over a wide range of problems from alcoholism to arthritis.

This income financed research and development of prescription drugs based mainly on "essential fatty acids", the beneficial chemicals in evening primrose oil.

Scotia's first drug, Epogam, received a UK license in 1988 for treating the skin disorder eczema. The company has since received approval for Efamast (for breast pain) and Efalith (for seborrhoeic dermatitis, another skin disease).

The company has distribution agreements with international pharmaceutical groups – notably Searle, a subsidiary of Monsanto, in the UK. Total sales of Scotia's pharmaceutical products in the year to June 30 1993 exceeded £20m, of which the company received £7.4m. Over-the-counter sales were worth a further £6.5m.

Scotia had made a pre-tax profit of £1.1m in 1991-92 mainly as a result of an up-front distribution payment by Searle. In the following year there was a pre-tax deficit of £4.4m and Dr Horrobin expected losses of £6m to £8m a year over the next two or three years – a period of heavy R&D spending.

The three most advanced projects are: EF4 to treat the nerve damage resulting from diabetes; EF13 to treat cancer; and EF27 to reduce the side-effects of radiotherapy. If clinical trials go well, they should be launched in 1996 or 1997.

Scotia is an unusual pharmaceutical company. It concentrates on a field – essential fatty acids derived from natural products – that has been virtually ignored by the rest of the industry. And, instead of centralised R&D and manufacturing facilities, it has small units scattered around the UK, from Surrey to the Outer Hebrides, and a basic research centre in Nova Scotia, Canada.

Vardon £0.5m in the black

VARDON, the leisure company which owns Sea Life Centres and The London Dungeon and came to the market in October 1992, made pre-tax profits of £540,000 in the six months to June 30, against restated losses of £582,000.

The interim dividend is raised from 0.25p to 0.3p.

Turnover at the visitor attractions division grew to £5.44m (£3.18m), giving operating profits of £539,000 (£302,000). Three new attractions were added during the period – the Seal Sanctuary in Cornwall was bought in February and Sea Life Centres in Southend, Essex, and Scheveningen, the Netherlands, were opened in May. The London Dungeon was refurbished and now includes the Jack the Ripper Experience. Capital expenditure totalled £3.9m in the period.

The group's 10 bingo clubs, acquired in May, traded for seven weeks within the group and contributed turnover of £1.02m and operating profits of £99,000.

Group turnover was £6.45m (£3.75m). Earnings worked through at 0.7p (losses 0.9p).

Exceptionals lift Singer & Friedlander

By Andrew Bolger

PRE-TAX profits at Singer & Friedlander, the merchant bank and property group, rose from £3.3m to £11.7m in the six months to June 30, but were considerably affected by exceptionals.

The latest figure benefited from an exceptional gain of £2.8m on the sale of an investment, while last's figure was depressed by an exceptional write-down of £5.3m in the value of investment properties.

Profits from merchant banking and investment management rose by 19 per cent to £5.7m. The group said all divisions of its core business had improved significantly.

Property profits increased by 31 per cent to £1.9m because of lower interest rates and increased rents.

An internal valuation of the portfolio showed no significant change since December.

Interest and investment income fell from £3.1m to £1.47m as a result of spending £45m on loan stock redemption and a share buy-in.

The interim dividend rose to 1.25p (1p).

Sema shows 38% improvement to £10.6m

By Paul Taylor

SEMA GROUP, the Anglo-French computing services company, yesterday reported a 38 per cent increase in interim pre-tax profits excluding profits on disposals.

Pre-tax profits before the profit on disposals increased from £7.73 to £10.6m in the six months to June 30 on turnover which grew by 19 per cent to £232.9m (£195.4m).

However, profits were further boosted by a £4.63m profit on disposals in the latest period and £20.8m profits on the disposal of discontinued operations in the year-ago period.

As a result pre-tax profits under the new FRS3 accounting rules fell to £15.2m from £28.5m and earnings per share dropped from 22.27p to 10.26p.

Operating profits from continuing operations increased by 21.6 per cent to £9.73m (£8m).

The company said that the strategy of focusing on systems integration and facilities management while maintaining a leadership position in key market sectors such as banking, energy, defence "has proved to be correct."

In addition, the group had entered the second half with a strong order book and looked forward to achieving continued progress in its core businesses.

During the first half Sema spent £5.8m (£6.3m) on research and development and its book-to-bill ratio improved to 1.14 compared with 1.06 a year earlier.

The advance in turnover was led by the group's UK operations which lifted sales by 21.4 per cent to £103.9m.

The group's German, Spanish and Benelux operations all showed declines in turnover at constant exchange rates.

The balance sheet was strengthened during the period and the group ended June with net cash of £17.8m (£12.3m).

The group recorded net interest receipts of £847,000 compared with net interest payments of £373,000 in the 1992 period.

Airtours changes broker and public relations team

By Michael Skapinker, Leisure Industries Correspondent

AIRTOURS, the travel group, has changed its broker and public relations adviser, dropping the firms that advised it during its failed bid for Owners Abroad earlier this year. It is also expected to appoint a second merchant bank.

The group announced yesterday that Hoare Govett would become its stockbroker, replacing Barclays de Zoete Wedd.

Brunswick is replacing College Hill as public relations adviser.

It is believed that the group intends to appoint Morgan Grenfell as its merchant banker. It is thought that Morgan Grenfell will work alongside British Linen Bank, the group's current merchant banker.

Mr Eric Sanderson, British Linen Bank's chief executive, is a non-executive director of Airtours.

Airtours said last night that it felt the need for change and for new ideas. The changes in advisers implied "no specific criticism" of those dropped by the company.

Proposed ruling will hit Rothmans

By Philip Coggan, Personal Finance Editor

THE restructured Rothmans tobacco group will be excluded from the FT-SE 100 index if a proposed rule change goes ahead, and nearly half SmithKline Beecham's market capitalisation may also be omitted.

The proposed rule change, announced yesterday by the FT-SE Actuaries UK Indices Committee, means that only companies which pay a mandatory UK franked dividend will be eligible for inclusion in the indices.

The committee proposed the change in response to the problem set by the restructuring of Rothmans International and Dunhill Holdings. Rothmans is a current constituent of the Footsie; Dunhill is a subsidiary of Rothmans and is accordingly excluded from the indices.

Four new companies will be formed: Rothmans plc and Rothmans International NV; and Vendome plc and Vendome SA. Although the two pairs will be linked in the form of inseparable units, shareholders will be able to elect whether to receive the dividend from either the PLC or the NV company. If they choose the latter, the dividend will not be franked (ie, will be paid gross).

It is a principle of the indices that only UK companies are included, but at Rothmans/Vendome, the ability of shareholders to elect for dividends makes it impossible to give a precise definition of the proportion of the company which counts as UK-based.

The committee, which consists of market participants and is chaired by Mr Peter Jones of fund managers M&G, has proposed a rule which says that companies where shareholders may choose between a franked or an unfranked dividend would not be eligible.

This rule would exclude Rothmans/Vendome from the indices. It would also cause a problem for SmithKline Beecham units which have been included in the indices for several years, and make up nearly half the capitalisation of the company. The rules, as drafted, would exclude the units, which comprise about 1 per cent of the FT-SE 100 index. Discussions are taking place with the company and its advisers.

Mr Mark Makepeace, head of indices at the Stock Exchange said: "The problem is that it is very difficult to look through the structure of Rothmans/Vendome and say how much of it is a UK company. The index is designed to serve investors who are seeking to gain exposure to UK companies, and not those from overseas."

Mr Ken Costa, of Warburg Securities, joint brokers to Rothmans/Vendome, said: "We're trying to understand the basis for the decision before making any further comment."

The rule needs to be approved by the FT-SE Actuaries share Indices Steering committee which meets on October 6.

The composition of the indices is very important to investment managers who aim either to track them, or outperform them.

See Lex

Changes to FT-SE Actuaries Share Indices

The following notice was issued yesterday by the FT-SE Actuaries UK Indices Committee.

The Committee today approved the quarterly changes to the UK Series of the FT-SE Actuaries Share Indices, to be made on Monday, September 20 1993.

FT-SE 100

For inclusion: MEPC, Rolls-Royce, Schroders.

For exclusion: De La Rue, Tate & Lyle, Scottish Hydro-Electric.

FT-SE Mid 250 and FT-SE Actuaries 350

For inclusion: LWT (Holdings), Northern Ireland Electricity, Devro International, Bardon, Hewden Stuart, Laing (John).

For exclusion: MacAllan-Glenlivet, Wagon Industrial Holdings, Paterson Zochonis, FR Group, American Trust, Tilbury Douglas.

Companies promoted from the FT-SE Mid 250 to the FT-SE 100 will be replaced in the FT-SE Mid 250 by those companies excluded from the FT-SE 100. Companies excluded from the FT-SE Mid 250/FT-SE Actuaries 350 will be included in the FT-SE SmallCap.

The Committee also approved the inclusion of the following new issues in the FT-SE SmallCap with effect from September 20 1993: David Brown Group, David Lloyd Leisure, F&C US Smaller Companies, Holliday Chemical Holdings, Quality Software Products Holdings, RPC Group, Stagecoach Holdings, Westminster Healthcare, Yorkshire Food Group.

The next quarterly review will be held on Wednesday December 8 1993.

Annual Review

The Committee also approved constituent changes to be made to the FT-SE SmallCap and FT-A All-Share after close of business on December 31 1993. In accordance with ground rule 4.8(c), the minimum size of constituent for FT-SE SmallCap companies has been set at £20m.

There will be an additional 74 new companies included in the FT-SE SmallCap Index, with 40 existing companies being removed.

A list of these additions and deletions will be published in tomorrow's FT.

Jupiter Tyndall rises to £3.6m

Jupiter Tyndall Group, the banking and investment management group, raised pre-tax profits by 14 per cent to £3.61m in the first half of 1993.

The current year's figure included £493,000 from the sale of Jupiter's interest in Tyndall Australia, but with a number of non-recurring items also in the comparable figures, Mr John Duffield, chairman, said the increase was regarded as a "fair reflection" of the group's underlying performance.

Earnings per share were 8.2p (7p), while an interim cash dividend of 4p (3p) has been declared or an enhanced scrip dividend to the value of 8p per share.

James Capel will be underwriting the scrip dividend shares, the directors stated, at a discount of 2.5 per cent, free of expenses to a selling shareholder.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Amec	int	1.5	Dec 31	2	-‡‡	3
Baird (William)	int	3.55	Jan 7	3.55	-	8.9
Baynes (Charles)	int	0.575	Nov 5	0.525	-	1.425
Blenheim	int	3.4	Dec 3	3	-	12
Burnfield	int	1.65	Oct 22	1.65	-	5.75
Eadie Hidgs	int	0.3	Dec 1	nil	-	0.5
Fairhaven Intl	int	0.5‡‡	Nov 4	0.2	-	0.8
Fleming Claver	int	1.25♥	Dec 1	-	-	5.7
Fleming Overseas	fin	2.7	Oct 29	2.5	4.2	4
Greenway	int	nil	-	1	-	1
Jupiter Tyndall	int	4 §§	Nov 16	3	-	7.5
Kleinwort Small	int	1.5	Oct 29	2	-	4
Nthm Industrial	fin	16	Jan19	15	25	23
Nurdin & Peacock	int	2.06	Oct 26	1.96	-	6.12
Ocean	int	4.71	Nov 1	4.71	-	14.33
OGC Intl	int	1.75	Nov 4	-	-	-
Plasmec	int	0.75	Nov 4	1.5	-	3.75
P&O	int	13.5☆	Nov 10	13.5	-	30.5
Portals	int	5.25	Dec 31	5	-	14.5
Porvair	int	1.4	Oct 22	1.2	-	3.6
Prudential Corp	int	4.5	Nov 25	4.1	-	11.9
Sema	int	1.2	Nov 1	1.1	-	2.8
Singer & Fried	int	1.25	Nov 1	1	-‡	2.8
Stat-Plus	int	4	Oct 29	3.56	-	8
Vardon	int	0.3	Nov 12	0.25	-	0.75
Wimpey (George)	int	2	Oct 25	2	-	5.25

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock. ‡Total of 3p forecast. ‡‡At least same total foreshadowed. ♥Making 4.75p to date. ☆ Becomes 24p if enhanced scrip approved. §§Enhanced scrip dividend of 8p also proposed. ‡‡US cents. anddepth

Royal sells US reinsurance arm for $59m

By Richard Lapper

Royal Insurance, the composite insurer, yesterday announced the sale of its US reinsurance arm, American Royal, to the Australian group, QBE Insurance Group, for $59m (£39m).

The sale represents "a significant diminution of our reinsurance exposure which has been identified as non-core business longer term," said Mr Richard Gamble, chief executive. Royal took the decision to withdraw from reinsurance earlier this year.

At the end of 1992 American Royal had net written premiums of $41m and statutory net assets of $54m. Royal bought the group for $15m in 1983, when it was seeking to diversify the base of its insurance business outside Europe. The group made profits until 1992, when it sustained losses as a result of heavy losses from hurricane Andrew.

Cakebread Robey achieves £106,000

Cakebread Robey & Co returned to profit in the first half to June 30 with £106,000 before tax, against £667,000 in the previous first half.

Sales were £8.87m against £11.4m.

Cost controls helped produce operating profits of £155,000 (£58,000 loss).

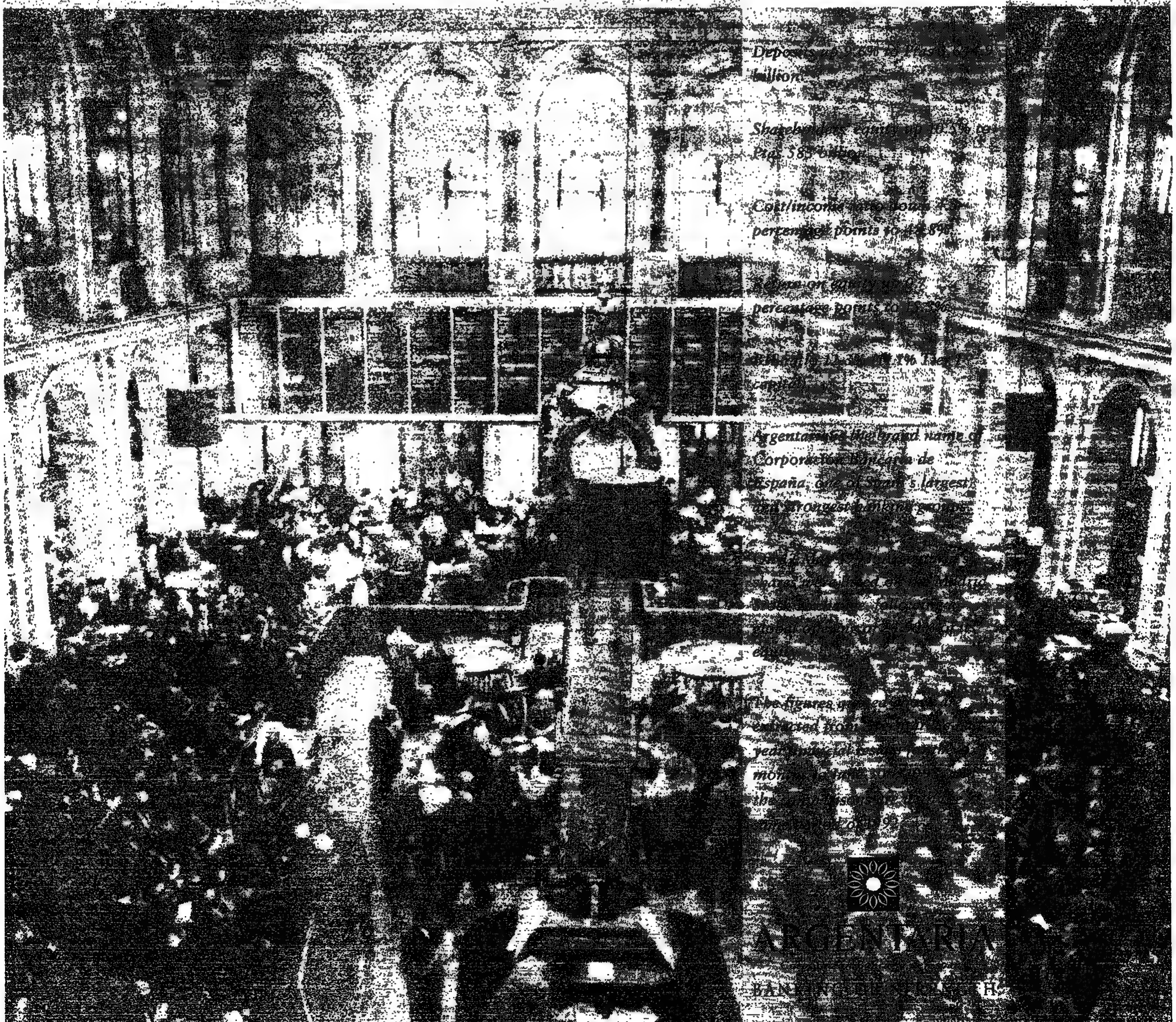
Earnings per share came through at 1.8p compared with losses of 11.1p.

The directors decided that it was not yet time to reinstate dividend payments.

Operating Income up 23.7% to Ptas 67 billion.

Pre-tax profit up 14.7% to Ptas 57.6 billion.

Total assets up 7.8% to Ptas 10,193 billion.



Wimpey in black with £1.1m

By Paul Taylor

GEORGE WIMPEY, Britain's *second largest housebuilder*, moved back into profit in the first-half and said that a significant upturn in UK housing sales earlier this year would be reflected in second-half profits.

Pre-tax profits were £1.1m against losses of £24.6m, restated for FRS 3, after a £11.2m loss on disposals.

Earnings per share were 0.17p (losses of 8.48p) and the *interim dividend is being maintained* at its reduced rate of 3p per share – it was halved at the interim stage last year.

Operating profits were £7.3m, against losses of £1.1m, on turnover down from £730.7m to £700.2m.

The results were accompanied by cautiously optimistic comments from Mr Joe Dwyer, chief executive, who said: "We now have evidence of a change in the underlying trading environment for our business. The barometer is moving gradually towards a more favourable climate.

"Our housing sales are running well ahead of last year and these will come through to profit in the second half." However, he also warned that "the overhang of recession will take *a long time to clear*".

Worldwide house completions fell slightly to 3,251 (3,343) during the first half *reflecting the slow start to the* year. However, the spring upturn in the UK housing market expanded rapidly and meant that by the end of June total UK house sales, including housing association homes, were 59 per cent higher at 4,961 (3,125).

Housebuilding contributed £2.4m (£3.6m) to total trading *profits of £5.6m (£1.2m losses)* on turnover of £195.4m (£215.7m). Construction edged back into trading profits of £1.1m (£1.5m losses) although the value of the construction order book fell slightly to *£590m (£600m)*.

In property, further lettings lifted the percentage of let space to 61 per cent and the division reported reduced trading losses of £300,000 (£1.9m).

Trading in the group's principal UK and North American aggregates markets remained tough but trading profits for the minerals side were £4.5m (£900,000) helped by a one-off £6.7m profit in the waste management business.

Net interest costs fell to £4.5m (£12.2m) reflecting reduced year-on-year borrowings and lower interest rates. Net borrowings at the end of June were £158m, representing gearing of 36 per cent.

Trevor Humphries

Joe Dwyer, left, with Sir John Quinton, chairman: barometer is moving gradually towards a more favourable climate

COMMENT

Wimpey's £104m rights issue in *June has provided the funds to* bolster the balance sheet and to make ready for the recovery by extending the land bank and providing cash for the minerals businesses which could begin to deliver good returns a few years down the line. More immediately the core housebuilding business is on target to benefit from cheaper land and an improving *mix which should begin to* boost margins. With luck the group could make pre-tax profits of about £29.5m this year, rising to £60m next year. Based on yesterday's share price of 184p this year's prospective p/e *of 20 looks lofty, but for longer* term investors the shares are trading at a slight discount to the sector.

US goodwill write-off hits Amec

By Catherine Milton

INTERIM pre-tax profits at *Amec, the UK construction*, engineering and property company, slipped from £10.6m to £9.1m despite a modest increase at the operating level.

Operating profits were ahead at £13.2m (£10.3m) but Amec's *pre-tax profits were reduced by* the write-off of £3.2m of goodwill on US businesses sold and the group paid £1.9m interest against £300,000 interest *received last year*.

The board cut the interim dividend *to 1.5p (2p) to reflect* more closely the group's split on earnings between interim and final results. It expects at least to maintain last year's 3p total at the year end, "unless conditions deteriorate significantly."

Turnover rose to £1.12bn (£1.04bn). *Sir Alan Cockshaw*, chairman, said: "Turnover was slightly higher than last year but there were very, very significant variations in the type of work carried out and its geographical location." The company's order book was down 7 per cent overall at the halfway *stage*.

Orders had grown, however, in oil, gas and petrochemical activities, matched by progress in heavy electrical and mechanical engineering.

Sir Alan added: "Steady *growth in construction* in mainland Europe, particularly in Germany and in South East Asia has partially offset significant reductions in our UK building and business services work."

Gearing at June 30 was 15 per cent (2 per cent).

Contracting, "substantially" financed by subcontractors and materials suppliers, improved turnover to £346.3m (£330.9m) giving profits virtually flat at £5.5m.

Mechanical and electrical engineering, *including* process and engineering, showed increased activity at £741.9m (£680.4m) giving profits of £10.9m (£9.8m) but the business has an in-built lag between labour costs and payments.

The housing and property business improved sales to £41.1m (£40.5m), but losses deepened to £3.2m (£2.1m).

COMMENT

Amec has tackled the difficult business cycle in contracting by diversifying its work in terms of both types of project and geography and it believes its problems in some overseas operations are behind it. Its work load is skewed more now towards the resilient process and energy sectors and away from lacklustre contracting. The former has been a cash drain *but this should* turnround in the second half. Amec expects to be ungeared at the year end as payments come in. Meanwhile falling orders indicate the company's restraint in bidding for unprofitable work. Full year pre-tax profits are forecast at £25m giving fully diluted earnings of 7.8p and a prospective multiple of 12. This looks cheap compared with other companies in the sector but they have bigger exposure than Amec *to* the housing recovery.

Wm Baird 12% down in difficult trading

By Roland Rudd

WILLIAM BAIRD, the textiles and engineering group, blamed difficult trading conditions in the UK for a 12 per cent fall in pre-tax profits for the *half ended June*.

They declined from £10m to £8.77m on reduced sales of £230.6m, compared with £242.7m. The shares fell 3p to 285p.

Mr Donald Parr, chairman, *said there had been no* consistent pattern of recovery in consumer confidence. The anticipated benefits for UK manufacturers from devaluation of sterling last year have not yet had a discernible effect on business.

Operating profits fell from £11.5m to £9.7m. Baird Textiles contributed £7.62m (£8.53m) on increased turnover *of £203.6m (£195.3m)*.

Darchem, which recently sold its engineering division to the Weir Group for about £16m, reported lower profits of £1.6m (£1.87m).

Mr Parr hoped to sell the *remaining building services* and engineering companies shortly. However, he said: "There is no emergency; they are still making profits. If it takes us another year to dispose of them so be it."

Borrowings of £25m are expected to be eliminated by the year end. Lower interest rates led to a fall in net interest charges to £979,000 (£1.5m).

Earnings per share fell to 5.2p (6p). The interim dividend is maintained at 3.55p.

COMMENT

The UK recovery may be taking longer than anticipated but the fall in textile margins disappointed the market. Regardless of how slow the upturn proves to be, the benefits from last year's devaluation of sterling are likely to flow through before the end of the second half. That should help the group to increase annual pre-tax profits to some £27m. But it may not be enough to make investors happy. A good acquisition might do the trick. That probably depends on how quick Baird can dispose of Darchem. If precedence is anything to go up it is likely to take longer than expected. The stock will look more attractive next year, but for now the shares – on a *prospective multiple of 17.3* – are high enough.

Ex-Lands makes £6.6m property buy

Ex-Lands, the property management group, has acquired Centre Heights, Finchley Road, London, for £6.6m, of which £6.4m is cash and £201,400 by the allotment of ordinary 10p shares. The property has retail, office and residential accommodation.

Streamlining and cost cuts bolster Blenheim

By Andrew Bolger

ALTHOUGH Blenheim Group's share price dived sharply yesterday the directors said improved overhead and direct cost control, as well as continued streamlining of the exhibition group's portfolio of events, had contributed to a rise in *interim operating margins* from 22 per cent to 24 per cent.

The shares closed 43p down at 355p.

Turnover rose by 10.7 per cent to £80.4m and pre-tax profits were 17.6 per cent ahead at £15.4m in the six months to June 30.

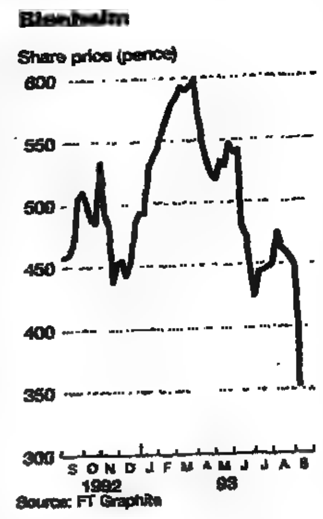
Earnings per share increased by 15 per cent to 11.2p (9.7p) and the interim dividend is *lifted 13 per cent to 3.4p*, compared with a pro-forma 3p.

At constant exchange rates, pre-tax profits and earnings increased by 6 per cent.

The group confirmed *it still* intended to pay dividends for *the year of not less than 10.25p*, representing an annualised increase of about 14 per cent over the annualised dividend for the 16 months to December.

Average visitor attendance at the group's trade exhibitions improved *marginally*. There was a net cash inflow from operations of £26.5m.

Blenheim said that as of August 23, 97 per cent of projected exhibition space revenues for the financial year to December had either been realised or contracted.



COMMENT

It was not the respectable half-year *results which did the* damage, but the downgrading of future profit forecasts. The market is never kind to former go-go companies which puncture high hopes, and there is nothing analysts like less than *a change* in tune of this kind – particularly so soon after a big cash-raising operation. Most concern centres on the outlook for France and Germany next year, when any currency effect is likely to be adverse. There is also a fear that the unexpectedly large spending on new launches may mask more fundamental problems. There has been growing scepticism about Blenheim's *recession-beating* performance, and this debacle has certainly handed the initiative to bears on the stock. The group's credibility is likely to remain fragile – and would certainly not survive any more nasty *surprises*.

Arjo plans flotation in London and Stockholm

By David Blackwell

ARJO, the international healthcare group based in Sweden, is planning to come to the *market this autumn in London* and Stockholm with a share offering worth up to SKr1.75bn (£145m).

Up to 70 per cent of the shares will be offered in London to international institutions, up to 20 per cent to retail investors in Sweden and the rest to US and other continental European investors.

Arjo, which claims to be a world leader in hygiene and lifting systems for elderly and disabled patients, was the subject of a leveraged buy-out in December 1990 from Malmros International, a Swedish conglomerate.

Arjo aims to eliminate its borrowings – now SKr1.3bn – through the flotation.

Last year Arjo reported a pre-tax loss of SKr4.6m on sales of SKr809.1m. Operating profits of SKr124.7m were overshadowed by financial charges *of SKr129.3m*.

At present Arjo's two largest shareholders are CWB Capital Partners and Warburg Pincus Investors, who will each hold about 38 per cent of the share capital before the offer. Arjo *said that CWB Capital Partners* would be selling a small proportion of its shares, leaving it with a holding of 10 to 15 per cent.

Warburg Pincus intended to increase its holding by subscribing for new shares with funds from the redemption of Arjo debt securities. Arjo said Warburg Pincus would have between 30 and 35 per cent of the shares after the offering.

Existing shareholders will sell no more than *SKr250m* of shares, Arjo said.

Mr Hans Lindström, chief executive, said yesterday that Arjo *made 97 per cent of its* sales outside Sweden, with markets in 40 different countries. The main customers were hospitals, nursing homes and home care organisations.

Last year Germany accounted for 26.6 per cent of group sales, while the US on *18.6 per cent* and the UK on 15.7 per cent. Half the manufacturing is based in Sweden, 25 per cent in the UK and 15 per cent in the US.

SG Warburg Securities will sponsor the listing in London, while *Carnegie Fondkommission* is to sponsor the Stockholm listing. SG Warburg Securities will also act as global co-ordinator for the offering, with James Capel and Carnegie Fondkommission as co-lead *managers*.

Gas boost for Cairn Energy

THE CONTINUING recovery in the US gas price, together with *the strength of the dollar* against sterling, helped Cairn Energy establish its recovery in the first half of 1993.

The independent oil and gas company reported pre-tax profit *of £641,000, against* a £161,000 loss previously, and profits of £818,000 for 1992.

Teredo Petroleum, acquired in May, contributed to the profits and also to the increased sales figure of £8.2m, against £5.7m.

Cairn said the main cause of the sales advance was the US *gas price in the period which*, for the group's share of production, averaged $2.09 per thousand standard cu ft, compared with an average of $1.59 previously.

Earnings per share came *through at 1.21p (losses 0.66p)*.

Teredo properties, which are mainly onshore UK and Spain, had produced good cash flow and a strong contribution from this source was expected in the second half. In addition cost savings were expected to be achieved by the closure of Teredo's London office.

Gearing had been reduced *significantly by the £5.2m* placing and open offer in May and the issue and sale of shares in CEUSA, the US subsidiary, in July.

The company said that in the half year exploration costs *previously incurred on North Sea* licences had been carried at £6.5m.

Changes in the Petroleum Revenue Tax regime and the reduced exploration drilling in the North Sea might effect the carrying value of these licences.

Burnfield shares fall 29p despite profits rise

PROFITS of Burnfield, the West Midlands-based specialist engineer, improved from £1.1m to £1.27m pre-tax for the six months ended July 2.

The market, however, was disappointed with the results and marked the group's share price down by 29p to 124p.

Mr Brian McGowan, chairman, said the business climate "remained unpredictable". He pointed out that some recovery was apparent in the US, demand in the UK was variable and recessionary forces continued to affect the group's French and German markets.

Sales for the half year improved from £11.4m to £18.4m, which included £1.16m from acquisitions. Earnings per share dipped to 2.2p (2.9p) but the interim dividend is being maintained at 1.65p.

The results included a one-off £300,000 provision to restructure Isopad's operation in France and thus eliminate losses. The Isopad offshoot is a maker of heating products.

At period end group net borrowings were £2.5m compared with net cash balances of £3.1m at end-December 1992. The movement primarily reflected the acquisition of Desgranges et Huot in March for £5.2m, including assumed borrowings.

Mr McGowan said the overall outlook for Burnfield was encouraging. He said the balance sheet remained strong which enabled the group to "focus on growth, both organic and by appropriate acquisitions".

NEWS DIGEST

Interest depresses Stat-Plus

A DROP IN interest income led to a fall in pre-tax profits from £2.02m to £1.82m at Stat-Plus group in the first half of 1993.

The group sells legal stationery, printing and law forms publishing.

Sales in the half year were broadly unchanged at £6.03m while operating profit rose 7 per cent to £1.39m. Gross margins were maintained and overheads reduced, leading to a considerable improvement overall to the final six months of 1992.

The outlook for the remainder of the year would depend to a considerable degree on the speed of the recovery in the housing market. Cash deposits stood at £13.6m.

Earnings per share came to 5.7p (6.3p) but the interim dividend is stepped up to 4p (3.56p).

Plasmec shares react to poor first half

The shares of Plasmec were marked down 12p to 55p yesterday as the group announced that it had run into a £237,000 loss in the first half of 1993 and was halving the dividend to 0.75p.

The group makes products for telecommunications and switching, and electronic and mechanical systems.

A satisfactory profit was expected for the second half, to put the group in a strong position to enter 1994.

Sales suffered a 19 per cent fall to £5.96m (£7.32m). That was blamed on completion of the contract for Littlewoods Pools, the decline in microfilm reader business, and the sluggish pace of business recovery in the first quarter.

The impact on operating profit was a decline of 55 per cent. There was a restructuring provision of £313,000.

Losses per share were 3.8p (earnings 4.3p).

IBC expects return to dividends

International Business Communications (Holdings), the publishing and conferences company, achieved an improvement in profits from £572,000 to £1.37m pre-tax for the six months to end-June.

The directors expect to restore dividends via a final of not less than 2p. The shares rose 10p to 145p.

Turnover pushed ahead from £27.46m to £29.08m and at the operating level, profits increased by 10 per cent to £3.62m. That compares with a forecast in a recent circular of £3.5m.

Interest charges were reduced to £1.09m (£1.28m) and earnings per share emerged at 0.71p (0.24p).

OGC sale lifts Fairhaven to $37m

The sale of 40 per cent of OGC International enabled Fairhaven International, the Bermuda-based specialist oil contractor, to achieve a jump in pre-tax profits from $9.27m to $37.4m (£24.7m) in the half year to June 30.

Turnover fell from $246m to $207m and operating profits were lower at $7.25m ($9.27m). The net gain on the OGC sale amounted to $30.2m.

Earnings per share worked through at 13.9 cents (2.5 cents) and the interim dividend is lifted to 0.5 cents (0.2 cents).

● OGC International, which was floated in May, also announced its results yesterday with a rise in pre-tax profits from £4.77m to £5.3m for the first half of 1993. That was achieved despite a fall in turnover of continuing operations to £97.1m (£110m).

Earnings improved to 5.69p (4.97p) per share and a dividend of 1.75p is declared.

IDV sets up Chinese venture

In a further expansion move into the Asia Pacific region, International Distillers & Vintners, the drinks sector of Grand Metropolitan, has set up a new company to market and distribute IDV brands in China.

IDV has appointed Mr TY Wong as managing director of the new company, International Distillers China, who will have his head office in Hong Kong, with three new representative offices in Beijing, Shanghai and Guangzhou.

Mr John McGrath, a Grand-Met director and IDV's chief executive, said that with a population of 1.2bn, China had a total spirits market of about 50m cases a year, of which international spirit brands account for 700,000 cases. This sector increased by 40 per cent last year which, he said, demonstrated enormous potential for future growth.

Last year IDV set up its own and joint venture distribution companies covering Hong Kong, Singapore, Malaysia, Indonesia, Thailand and South Korea.

Particularly bad conditions in continental Europe

'Patchy' markets leave Ocean static at £20.8m

By David Blackwell

OCEAN GROUP, the freight, environmental and marine services combine which underwent an £8m streamlining of its management structure last year, has announced unchanged pre-tax profits of £20.8m for the first half of 1993.

That followed a 20 per cent increase in turnover to £789.1m (£653.4m).

Earnings per share and the interim dividend were also unchanged at 9.4p and 4.71p respectively.

Mr Nicholas Barber, chief executive, said the results were consistent with the group's plans. He described its markets as "patchy," with particularly bad conditions in continental Europe. The group was not expecting any help from the world economy this year.

Operating profits rose to £24.4m (£23.6m) and included £700,000 from Panocean, whose overseas activities were sold to Royal Pakhoed in March for £55m including debt. Panocean also contributed £6.4m to turnover.

Net interest payments were £3.6m (£2.8m), reflecting a £12m increase in net debt to £63m and the reduction in UK interest returns from the group's £33m worth of sterling deposits. However, gearing was down from 35 per cent at December 31 to just over 20 per cent following the Panocean disposal.

Pre-tax profit included a £2m benefit from exchange gains, countered by increased costs on the computer system being installed at MSAS, the international freight business.

Freight and distribution services, which operate on very fine margins, boosted turnover by just over 25 per cent to £682.7m for the half, although its operating profit eased from £8m to £7.8m. The group expected to see the benefits from its new computer system next year.

Marine services contributed the bulk of the profits, with £14.8m (£12.6m) from a turnover up 9 per cent at £63.8m. Mr Barber said the group had moved its oil exploration vessels away from the depressed North Sea to areas of strength in West Africa and south-east Asia.

Cory Towage had a good first half and benefited from favourable trading in a number of its markets and from salvage revenue. Results at OIL showed an improvement over last year.

Operating profit from the environmental services division was £1.8m (£1.6m) on turnover of £35.2m (£32.8m).

● COMMENT

Rarely can a flatter first half have been announced. The company says it is satisfied with its progress since last year's reorganisation, which shed nearly 500 jobs and is expected to reap a full benefit of £5m by the year end after £1.5m in the first half. These savings are likely to account for the rise in pre-tax profits to about £44m, from £38.1m last year. But the picture is not so rosy if currency gains of £4m to £5m are added into the equation. However, the outlook brightens next year, when the benefits of the freight distribution business's new computer system should start to feed through and the £18m Barcelona distribution centre announced in July comes on stream. Meanwhile the shares are worth holding for their 5¼ per cent yield.

First Henderson trust since TR merger

By Philip Coggan, Personal Finance Editor

HENDERSON Touche Remnant is launching its first investment trust since the merger of the two fund management groups late last year.

The new trust, which will invest in Japanese smaller companies, is aiming to raise between £30m and £100m via a placing and offer for subscription of shares at 100p, with warrants attached on a 1-for-5 basis.

Henderson TR believes that low interest rates and increased government spending will help the Japanese economy to grow appreciably in 1994 and 1995. Low rates will also push investors away from cash and into the stock markets where, although p/e ratios are very high, Henderson TR thinks stocks look attractive on a price-to-cash flow basis.

The annual management charge will be 1 per cent of assets, and issue expenses will be capped at 4 per cent. The trust will have an initial life of 10 years. Closing day for applications will be October 14 and dealings are expected to start on October 22.

Nurdin & Peacock ahead at £7m

By Catherine Milton

NURDIN & Peacock, the cash and carry operator, said yesterday the second of its US-style cut price warehouses would open as planned next summer in spite of "petulant" attempts to "stifle" the project by a national retailer.

The company faces a judicial review of planning permission, sparked by Sainsbury, which could push up costs at its second site, which is in the West Midlands.

Mr Nigel Hall, finance director, said: "We think this is a petulant attempt to stifle a project which is clearly in the consumer interest."

Announcing half-year underlying pre-tax profits up 4 per cent on sales down by a similar amount and volumes off 9 per cent, Mr Dickie Fulford, chairman, said the first warehouse was on schedule: "The Cargo Club warehouse at Croydon is under construction and will open in March 1994."

Pre-tax profits rose from £5.59m to £7.07m in the six months to July 2, flattered by one-off costs of £1.3m in the comparative figure. Turnover fell to £677.9m (£704.1m). Better control of costs and stock levels helped operating profit margins rise to 0.9 per cent (0.7 per cent).

Mr Fulford said: "The results reflect the continuing severity of the economic environment and the competition for the business of independent grocers and caterers. This has been offset by further improvements in operating efficiency."

The Glasgow trade and business centre, launched in 1992, continued to perform up to expectations. The company is extending its buying procedures and selecting merchandise ahead of the opening of the Croydon development.

The company believed it had gained market share "from all the other operators" in its core and carry business of 46 outlets mainly in the south-east. It also believed that the independent grocery sector had declined by about 10 per cent over the last 12 months as consumer spending switched to supermarkets and some rivals were forced out of business.

It received £555,000 (£1.09m) in interest as rates fell. Earnings per share rose to 3.86p (3.08p) and the interim dividend is being increased to 2.06p (1.96p).

Equipment failure hits Cluff

By Kenneth Gooding, Mining Correspondent

FAILURE of equipment, which interrupted production at Freda Rebecca, Zimbabwe's biggest gold mine, for seven weeks contributed to a 28 per cent drop in midway pre-tax profits reported by Cluff Resources, the UK-based gold company.

Very high interest rates in Zimbabwe also affected the result and pre-tax profits dropped from £915,000 to £661,000 for the period to June 30.

Turnover fell from £6.97m to £6.67m and gold output was down from 35,625 troy ounces in the first half of 1992, when production was held back by power cuts associated with Zimbabwe's drought, to 28,166 ounces.

Mr Algy Cluff, chairman, said both mills at Freda Rebecca were back in full production following repairs to a motor which drives one of them and that the company's gold output this year was expected to reach 65,000 ounces against a previous target of 70,000.

Cluff's interest payments would ease considerably once it completed a large gold loan being negotiated in Zimbabwe – the first ever permitted by that country's central bank. The loan should be completed later this month.

Some of the proceeds, about US$12m (£7.9m) would fund underground development at Freda Rebecca, taking annual capacity to nearly 100,000 ounces during 1995.

Aberfoyle, the Zimbabwean industrial and farming group in which Cluff recently acquired a 70 per cent stake, would make a positive contribution to results, said Mr Cluff.

Cluff's net earnings in the half year were £278,000 (£238,000), equal to 38p (33p) per share.

Porvair up by 12% to £0.85m

Pre-tax profits at Porvair, the maker of microporous synthetic materials, advanced 12 per cent to £849,000 in the six months to May 31.

The rise was due to organic growth at its original companies.

The directors pointed out that acquisitions impacted more on turnover which rose 31 per cent to £10.3m (£7.86m).

Earnings per share came out at 4.5p (4p) and the interim dividend is being raised to 1.4p (1.2p).

Mr John Morgan, chairman, said he expected the year as a whole to be one of further progress.

Acquisitions help lift Eadie to £850,000

ON TURNOVER up by 47 per cent from £9.22m to £13.6m, Eadie Holdings, the general engineering group, pushed pre-tax profits ahead to £850,000 for the first half of 1993, compared with £85,000 last time.

Mr Peter Bromwich, chairman, said profits were in line with expectations, with good contributions from all areas of the business.

He explained that half the turnover boost came from acquisitions, with the rest from organic growth.

After tax of £280,000 (£20,000) earnings per share were 1.09p, against 0.19p, and the company is returning to the interim dividend list with 0.3p – last year there was a single final payment of 0.5p.

Mr Bromwich stated that Eadie continued to seek opportunities "for the careful expansion of the group by further acquisitions, by the introduction of new products into existing businesses and by continued expansion of the customer base."

Albrighton plans £3.4m rights and acquisition

ALBRIGHTON plans an acquisition and to raise £3.4m net through a rights issue at 17p per share. Yesterday the shares closed 1p lower at 20p.

The company is paying £2.9m cash to acquire the assets of the dimensional stone business currently carried on by RMC, comprising three operational quarries, three dormant ones, and three processing plants.

In addition, a lease agreement has been entered into over a 6.2 acre site in Redditch with an option to purchase at £1.3m.

Currently the group has eight sandstone quarries, two granite quarries and five processing plants.

The rights comprises 21.7m shares to be offered on a 3-for-7 basis. Tarmac, which acquired 8.4m shares in Albrighton in January, is having them conditionally placed with institutions at 17p each.

It will then have no interest in the capital.

Northern Ind'l edges ahead to £443,880

Northern Industrial Improvement Trust, the investment and property company, reported pre-tax profits of £443,880 for the year to the end of March, against £425,995.

Income totalled £493,896 (£473,235) and earnings came out at 27.55p (24.7p) per share. A proposed final dividend of 16p makes a total for the year of 25p (23p).

Fleming Overseas net assets ahead

The Fleming Overseas Investment Trust reported net assets per share of 306.6p at June 30, compared with 214.7p a year earlier.

Net revenue for the year to the end of June improved to £6.37m (£5.34m) for earnings per share of 4.78p against 4p.

The proposed final dividend is 2.7p for an increased total of 4.2p (4p).

Tullow Oil back in the black at halfway

STRONG GROWTH in oil and gas sales helped Tullow Oil, the Irish exploration and development company, to turn in an operating profit of I£271,958 (£254,000) for the first half of 1993, against a £10,343 loss last time.

Sales grew by over 72 per cent to I£938,479, but the directors explained that that included only one month's contribution from the Senegal well.

And the sales were affected by disruption to UK production caused by testing programmes.

Sales in the second half were expected to include full contributions from production in both Senegal and the UK as well as first production from the Czech licence, the directors stated.

At the attributable level, profit came out at I£290,159, against I£2.16m last time which included I£2.19m profit on the sale of a licence interest.

Earnings per share at six months fell from 1.48p to 0.2p.

Supply fears push cocoa prices to 3-year highs

By Deborah Hargreaves

COCOA PRICES surged to their highest level for over 3 years in London yesterday fuelled by continued fears that *the Ivory Coast's harvest will* be lower than expected, leading to a shortfall in world supply.

The price spike came on the eve of the International Cocoa Organisation's talks in London on the operation of its new producers' agreement, which will try to bring supply and demand more closely into line.

The price of the December cocoa futures contract on the *London Commodity Exchange* rose in hectic trading by £31 to £862 a tonne – its highest point since June 1990. About 16,000 contracts had changed hands *by the close of the market*, still way below the record of 46,458 lots set on June 22.

"The market has realised cocoa prices have just been too low for too long and maybe this is just the beginning of a big move," said Mr Tony Chadwick at *Prudential Bache*.

The cocoa market has recently been reacting to reports that this year's crop from the Ivory Coast, which produces around a third of the world's cocoa, will not be as good as expected.

A poor harvest – which begins on October 1 – will push world supplies lower than demand for the third season in a row.

One reason for the shortfall is that prices have been so low in recent years, they have not encouraged producers to invest in production, resulting in the current poor crops.

Mr Tony Harrison from Mars who is chairman of the *European cocoa industrial users* body, Caobisco, says there is a pressing need for producers meeting in London today to discuss ways of matching world supply with demand.

"I'm not arguing for higher prices, but we want to see a sustained supply and these prices have not been encouraging that," he said. World demand has been rising by between 3 and 5 per cent a year.

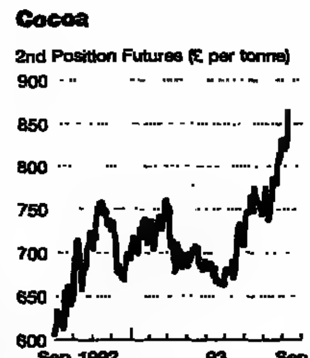
The 40 nations represented at the talks in London will also try to agree a way to dispose of some 230,000 tonnes of buffer *stocks held from the market*-stabilising International Cocoa Agreement, which expired this year.

They are expected to agree a way of releasing some 4,000 tonnes of cocoa to the market each month over four and a half years at prices prevailing in the market.

Mr *Lawrence Eagles*, commodities analyst at GNI, the London trade house, believes that the way in which the buffer stock liquidation is *decided could have an effect on* prices. But traders have been anticipating the outcome for some weeks and most of them believe the outcome of the talks has already been discounted.

Cocoa

2nd Position Futures (£ per tonne)



Source: Datastream

LME moves to relieve copper 'squeeze'

By Kenneth Gooding, Mining Correspondent

THE LONDON Metal Exchange last night took emergency action in response to widespread suggestions that its "flagship" copper market, on which most contracts around the world are based, was being manipulated to boost the price.

It said the daily backwardation (premium over the future price for *metal for immediate* delivery) was to be limited to $5 a tonne.

After an LME board meeting, Mr David King, chief executive,*strode on to the trading* floor at 3.30pm London time to announce the details.

He said later that the board had also authorised him to take any further action that might be needed to ensure an orderly copper market.

The LME board's intervention was widely *expected* because two formal warnings had already been given that action might be taken to end the squeeze.

In similar circumstances in the copper and zinc markets in the past the LME has imposed limits on daily backwardations.

"This should have come as a surprise to no-one," said Mr Nick Moore, analyst at the Ord Minnett financial services company. "So *there should* be no squeals from traders. But, once again, it helps those who are short of metal to get out of a tight spot."

Many traders suggested that Sumitomo, the Japanese group, has been responsible for the supply tightness *building up* this summer, possibly in preparation for a large sale of physical copper deal. Sumitomo denied it was manipulating the market.

Mr King said yesterday that the backwardation now imposed until further notice *took account of both present* prices and the level of trading. Dealers said the premiums for key dates, such as next week's September delivery date and *October* 7 and 8, have varied but they have never been much above $7 a tonne.

After the LME's move copper for immediate delivery closed *down* $15.50 a tonne at $1,986 and three-month copper was down $19 at $1,928. Analysts suggested that, with a lacklustre world economy and LME stocks at a 15-year peak, copper had further to fall when the "squeeze" ended.

US likely to lower grain and soya estimates

By Laurie Morse in Chicago

COMMODITY TRADERS are expecting the US Department of Agriculture to reduce its estimates for the wheat, soyabean, and maize harvests when it releases the results of its September crop survey this afternoon.

However, the figures are unlikely to boost grain prices, as futures fund managers, who control huge commodity investments, have already allowed for the reductions.

Although respected private crop forecasters like Memphis-based Sparks Commodities lowered their own crop estimates last Friday, soyabean prices tumbled to their lowest levels since June 30 after Monday's *Labour Day holiday*. The slide came as weather forecasts predicted fair harvesting weather for the week, and fund managers, made nervous by *losses in gold, sold off holdings* of other commodities.

Tumbling oil prices and interest rates have eased inflation concerns, making investments in physical commodities less attractive. *Commodities* are often held in portfolios as inflation hedges.

Based on its August 1 survey, the USDA estimated maize *production* at 7.423bn bushels and soyabean production at 1.902bn bushels. Sparks lowered its estimates to 7.316bn bushels for maize and 1.869bn *bushels for* soyabeans in advance of today's report. Another prominent consulting group broadcast harvest estimates as low as 7.294bn bushels for maize and 1.848bn bushels for soyabeans.

While analysts expect the government to reduce its production *estimates today, they* say the October crop survey, conducted later in the harvest, is likely to restore some of the lost bushels. "History dictates that October estimates are higher than September's, at least in non-drought years," says Mr Richard Lowey, president of the market consulting firm, *AgResources*.

London coffee market's surge continues

By Deborah Hargreaves

ROBUSTA COFFEE futures prices rose by $20 a tonne on the London Commodity Exchange yesterday with the November contract closing at $1,268 a tonne, after touching a fresh 2½-year high of $1,285 a tonne during the day. The sharp run-up in coffee prices over the past couple of days reflects a tightness in supplies of good quality beans to be delivered against the September contract.

Market sentiment was also buoyed by the decision of Indonesia to join other producers in the coffee retention scheme, *which makes* the agreement more of a global one.

● Brazil has fought off a challenge by Colombia to its traditional position as the world's leading coffee exporter, according to figures released this week by the Brazilian Federation of Coffee Exporters (Febec), writes Bill Hinchberger in Sao Paulo.

It had appeared that Brazil would be outperformed by its north-western neighbour for the July-June season. But a rebound in Brazilian shipments in June, pushing monthly exports back over the 1m bags mark, helped the country to regain its world leadership.

Brazil shipped 16.9m bags (60kg each) compared with Colombia's 15.7m during the 12 month period ending in June. World exports were 76.5m bags. During the 1991-92 season, Brazil exported 21.9m bags, compared with Colombia's 14.6m. World exports that season totalled 76.4m bags

The Brazilian resurgence is continuing. The country exported 1.4m bags in July, the highest monthly figure this year. August shipments should have reached 1.5m, according to preliminary estimates compiled by Febec.

Russia signals further cut in oil production

By John Lloyd in Moscow

A FORECAST of Russian oil production with grim implications for both Russia and the former Soviet states was presented to the energy ministers of the states in Moscow yesterday.

The oil industry forecasting group, Asotek, told them it expected crude oil production in Russia in 1994 to be 327m tonnes – sharply down on this year's forecast figure of 340-350m tonnes. Refined products should reach 225m tonnes in 1994 compared with 254.6m tonnes in 1992, it said.

Asotek said it would not be possible to stop the decline in oil production, which has been falling steadily for five years. However, it could be "significantly slowed" through the programme of co-operation and investment agreed between nearly all the former Soviet states.

According to Tass, the official news agency, Mr Nikolai Pravednikov, head of Asotek, told the gathering that the expected level of production next year would cover Russia's consumption but would not be sufficient to supply other former Soviet states. Russia has cut back on cheap oil supplies to its neighbours but has not moved to full world pricing of oil exports to its closest partners in the Commonwealth of Independent States.

The ray of light was that gas production was forecast to rise by 10bn to 12bn cubic metres, to 650bn-660bn cu m in 1994.

The co-operating states – Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Ukraine and Uzbekistan – have agreed to pool investment in energy resources and to create joint ventures for the proving and developing of oil supplies. However, the poverty of most of them has so far limited the co-operation – while the Russian oil managers continue to throw cold water on most projects that would bring in foreign oil companies.

Veteran diamond chief resigns 'because of ill health'

By Leyla Boulton in Moscow

MR VALERY Rudakov, the veteran chief of Russia's diamond industry, has resigned citing ill-health, and has been replaced by a senior official *from Yakutia, the semi-independent* region that produces the country's diamonds.

His successor, elected by shareholders including the Yakut government, is Mr Andrei Kirillin, deputy chairman of *the Yakut parliament, which* has been pushing for ever greater independence from Moscow.

But Mr Sergei Ulin, deputy *chairman of Almazy-Rossii* Sakha the state-dominated corporation responsible for the production and marketing of Russian diamonds, denied that there were any political motives for Mr Rudakov's *departure*.

However, another official, who declined to be identified, said the resignation may have been triggered by conflicts *between Mr Rudakov and* Yakut authorities increasingly eager to wrest remaining control of the industry from Moscow-based Russian authorities.

"He is a strong-willed man *and he is not the kind to give* in to demands, especially stupid ones," the official said.

Before heading ARS, Mr Rudakov was in charge of *Glavalmazzoloto, the Soviet state* gold and diamonds monopoly, which was subsequently broken up into separate corporations for diamonds and gold.

Pakistan mobilises locust defences

Farhan Bokhari on a battle that many villagers fear is a lost cause

AS THE sun rises over the village of Mithi, on the Pakistani border of the Thar desert, an ominous silence is broken only by the tinkling of bells tied around the necks of goats and camels coming out of a nearby valley, followed by bare-footed herdsmen in torn clothes.

"Makhar aayo" shouts one suddenly – "the locusts have come" – and all eyes turn towards a band of hundreds of pink insects flying off some nearby trees.

A few miles up the desert track, villagers wait for the bus to take them to irrigated sugarcane fields in search of seasonal jobs. They have seen a drought this year followed by the locust invasion, and fears of widespread fodder shortages are gradually convincing many to migrate, at least until the locust attack is past.

Aerial and ground sprays have left grim reminders of the potential catastrophe that *haunts them. For miles around* the road-side is littered with dead yellow hoppers and pink locusts in the flying stage. But the problem is far from over.

The scene is only one example of Pakistan's most recent emergency in the agriculture sector. The scale of the problem is huge, claimed by some to be the worst locust plague in more than three decades.

The government this week called *in the army to help with* the monitoring of locust bands and with aerial spraying, after the department of agriculture found itself unable to meet the *challenge. According to official* estimates, at least 47,000 bands of locusts have been eliminated in spraying over an area of about 12,000 sq km. But that is only a small portion of the massive task at hand. At least 50,000 sq km of desert land in Thar (Sindh) and Cholistan (Punjab), remains as a breeding ground for the voracious insects.

'The spray planes come here every day, but so do more and more locusts'

Shortage of equipment and pesticides has raised concerns that the defence operation will prove futile. Pakistani experts expect more swarmlets to arrive from India by the middle *of this month, amid fears of* heavy breeding currently in progress there.

The desert is the last frontier before lush prime farmland begins, and with Pakistan's prime cotton land at the greatest risk western experts and *some officials fear that the* shortages have caused irrecoverable delay in launching the operation. Mr Ali Khan Junejo, agriculture minister, said this week, *that the attack could* become "terrible" if allowed to spread. Earlier, Pakistani senators bitterly criticised their government's inaction.

Despite the criticism, some government officials defend their position. Mr M.B. Mohsin, one of the government's most senior entomologists, says: "A lot of swarms came, but none of them could come out of the desert. This is proof that we acted in time".

Mr Mohsin is confident that the attack will be contained in the desert. He also denies that there are any shortages of pesticides. But many local villagers see the fight as a lost cause. "The spray planes come here every day," says Mr Bhai Khan, a herdsman, "but so do more and more locusts". Mr Haji Mohammad, a local school teacher comments: "The agriculture people have mostly *gone to areas close to roads* and tracks. But out in the distant valleys the locusts have destroyed crops and grass".

Some lower-level agriculture officials share these concerns. One junior government entomologist says the equipment and pesticide shortage has caused the most serious setback. "We need at least 100 exhaust vehicles, we have only 15. How can we fight like this".

Some pesticides have been supplied in assistance from bilateral donor agencies and the UN's Food and Agriculture Organisation. Some officials fear, however, that unless a massive operation is launched with all the required resources delivered within the next couple of weeks, the locusts may *cross the desert and penetrate* inland. How much crop damage would result is anybody's guess.

According to government forecasts earlier this year, Pakistan expected to produce up to 12m bales of cotton from its current crop. Some officials say this must be now lowered to 11m bales, but only as a starting point for assessing the possible damage caused by the locust invasion.

Whatever of the final outcome, the catastrophe for the desert herdsmen has already *taken place. For some, it may* be years before they can repair their livelihoods, which were at a minimum subsistence level to start with.

WORLD COMMODITIES PRICES

MARKET REPORT

Charts show mixed pictures for precious metals after yesterday's nervous base-building in the wake of technically-inspired selling on Tuesday, analysts said. As the London bullion market GOLD price fell another $2.50 to $351.75 a troy ounce traders said the the downside risk was relatively limited. "The break through $360 was important," said Ms Elli Gifford, analyst at Investment Research of Cambridge. But she thought the $350 mark was "not particularly significant". She said the market was "oversold" and "the real support doesn't begin until $340". Mr David Kerly, senior analyst with Chart Analysis, thought an early return to the high prices seen a month ago, was unlikely. "So much damage has been done that it will really take time for confidence to be re-built," he said. PLATINUM had the weakest chart background, according to Ms Gifford, with the downside stretching from the current $357/$358 an ounce range down to about $340. But Mr Kerly saw platinum coming into support in the January-April 1993 trading range at closer to $350, about $10 below the present level.

Compiled from Reuters

London Markets

SPOT MARKETS		
Crude oil (per barrel FOB)(Oct)		+ or -
Dubai	$14.02-4.14u	-0.095
Brent Blend (dated)	$15.72-5.74	-0.080
Brent Blend (Oct)	$16.05-6.07	-0.080
W.T.I (1 pm est)	$17.08-7.09	-0.140
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$190-192	
Gas Oil	$160-161	-1
Heavy Fuel Oil	$62-64	
Naphtha	$151-153	-2
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♦	$351.75	-2.5
Silver (per troy oz)♦	430.50c	-3.5
Platinum (per troy oz)	$357.25	-9.5
Palladium (per troy oz)	$117.00	-2.75
Copper (US Producer)	91.00c	-0.5
Lead (US Producer)	33.50c	
Tin (Kuala Lumpur market)	11.85m	
Tin (New York)	214.0c	
Zinc (US Prime Western)	62.0c	
Cattle (live weight)†	126.27p	-2.29*
Sheep (live weight)†♦	60.34p	-3.61*
Pigs (live weight)†	70.46p	-0.04*
London daily sugar (raw)	$244.7	+2.2
London daily sugar (white)	$280.0	+1.2
Tate and Lyle export price	£269.0	
Barley (English feed)	Unq	
Maize (US No. 3 yellow)	£172.0	
Wheat (US Dark Northern)	£166.5u	-1.5
Rubber (Oct)♥	61.50p	-0.5
Rubber (Nov)♥	62.00p	-0.5
Rubber (KL RSS No 1 Jul)	214.5p	-1.0
Coconut oil (Philippines)§	$425.0v	-5.0
Palm Oil (Malaysian)§	$352.5	-2.5
Copra (Philippines)§	$290.0	
Soyabeans (US)	£190.0	-5.0
Cotton "A" index	55.10c	+0.20
Wooltops (64s Super)	325p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. v-Sep/Oct u-Oct t-Oct/Dec x-Aug/Sep ♥London physical §CIF Rotterdam. ♦ Bullion market close. m-Malaysian cents/kg. ♦Sheep prices are now live weight prices * change from a week ago, provisional prices.

COCOA - LCE			£/tonne	
	Close	Previous	High/Low	
Sep	826	796	826	805
Dec	862	831	865	838
Mar	883	856	889	863
May	891	868	899	878
Jul	901	878	910	890
Sep	910	887	915	900
Dec	924	905	925	913
Mar	941	917	940	926
May	951	929	950	944
Jul	958		963	956

Turnover:15665 (8491) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Sep 7 669.61 (647.86) 10 day average for Sep 8 640.11 (638.91)

COFFEE - LCE			$/tonne	
	Close	Previous	High/Low	
Sep	1257	1339	1360	1350
Nov	1268	1248	1285	1260
Jan	1243	1217	1253	1232
Mar	1234	1208	1242	1226
May	1231	1205	1232	
Jul	1200	1192	1230	1213

Turnover: 3454 (5428) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Sep 7 Comp. daily 70.09 (69.91) 15 day average 69.43 (69.14)

SUGAR - LCE			($ per tonne)	
White	Close	Previous	High/Low	
Oct	266.10	266.30	268.00	266.00
Dec	262.50	263.30	264.00	262.00
Mar	265.10	266.10	266.50	264.70
May	266.60	269.10	269.00	268.50
Aug	266.50			
Oct	264.20		266.50	

White 1826 (1735) Paris- White (FFr per tonne): Oct 1523.50 Dec 1516.23

CRUDE OIL - IPE			$/barrel	
	Latest	Previous	High/Low	
Oct	16.07	15.99	16.13	15.93
Nov	16.30	16.24	16.37	16.16
Dec	16.49	16.47	16.57	16.39
Jan	16.65	16.64	16.73	16.64
Feb	16.83	16.80	16.88	16.83
Mar	16.95	16.97	16.95	
IPE Index	16.24	16.57	16.24	

Turnover 10407 (54353)

GAS OIL - IPE			$/tonne	
	Latest	Previous	High/Low	
Sep	157.00	157.75	158.00	156.50
Oct	158.50	158.75	158.75	158.00
Nov	160.50	162.00	161.75	160.00
Dec	162.50	164.00	163.75	162.25
Jan	164.25	165.75	165.25	164.00
Feb	164.25	165.75	165.50	164.25
Mar	162.75	163.75	163.50	162.25
Apr	160.00		162.00	161.75
May	159.50		161.00	159.50
Jun	159.50	160.00	160.00	159.50

Turnover 19943 (18319) lots of 100 tonnes

POTATOES - LCE			£/tonne	
	Close	Previous	High/Low	
Apr	81.3	79.9	82.0	80.5
May	95.3	92.5	95.0	

Turnover 75 (43) lots of 20 tonnes.

SOYAMEAL - LCE			£/tonne	
	Close	Previous	High/Low	
Oct				

Turnover 0 (0) lots of 20 tonnes.

FREIGHT - LCE			$10/index point	
	Close	Previous	High/Low	
Sep	1430	1430	1430	1420
Oct	1475	1466	1480	1441
Nov	1478	1475	1455	1440
Jan	1480	1477	1480	1435
BFI	1406	1409	1406	

Turnover 27 (28)

GRAINS - LCE			£/tonne	
Wheat	Close	Previous	High/Low	
Sep	101.25	102.00	101.50	101.25
Nov	102.20	102.90	102.75	102.15
Jan	104.35	105.10	104.80	104.35
Mar	106.40	107.05	106.60	
May	108.45	109.40	109.00	108.65
Jul	109.75		110.00	109.85
Barley	Close	Previous	High/Low	
Nov	102.05	102.25	102.15	102.05
Jan	104.00	104.35	104.05	104.00
Mar	106.15	106.25	106.15	106.05

Turnover: Wheat560 (523) Barley 86 (72). Turnover lots of 100 Tonnes.

PIGS - LCE		(Cash Settlement) p/kg	
	Close	Previous	High/Low
Sep			

Turnover:0 (0)lots of 3,250 kg

JUTE
September/October c and f Dundee BTC $325, BWC $335, BTD $305, BWD $310; c and f Antwerp BTC $310, BWC $310, BTD $285, BWD $285.

COTTON
Liverpool- Spot and shipment sales in amounted to 122 tonnes for the week ended September 3, against 52 tonnes in the previous week. Improved demand brought moderate purchases, mainly in America and Benin descriptions. CIS growths made some headway.

LONDON METAL EXCHANGE				(Prices supplied by Amalgamated Metal Trading)		
	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 44,312 lots
Cash	1132-3	1141.5-2.5		1135-5.5		
3 months	1153-4	1163-3.5	1158/1152	1155.5-6.0	1152-2.5	249,440 lots
Copper, Grade A ($ per tonne)						Total daily turnover 83,673 lots
Cash	1985-7	2011-2	1994/1976	1191-2		
3 months	1928-9	1947-8	1941/1918	1937-8	1919-20	179,910 lots
Lead ($ per tonne)						Total daily turnover 4,512 lots
Cash	399-7	385-6		385.5-5.5		
3 months	400-1	399-400	402/398	399.5-400.5	402-3	23,804 lots
Nickel ($ per tonne)						Total daily turnover 5,417 lots
Cash	4495-500	4475-80	4535	4480-5		
3 months	4539-40	4525-30	4560/4530	4538-40	4535-40	47,654 lots
Tin ($ per tonne)						Total daily turnover 2,004 lots
Cash	4595-600	4615-25		4595-600		
3 months	4645-50	4665-75	4680/4645	4645-50	4640-5	10,976 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 13,941 lots
Cash	879-80	871.5-72.5	875	875-5.5		
3 months	894-5	888.5-89.0	896/885	891-1.5	895-6	81,346 lots
LME Closing £/$ rate: SPOT: 1.5400		3 months: 1.5298		6 months: 1.5210		9 months: 1.5142

Copper and lead prices are now expressed in dollars per tonne

LONDON BULLION MARKET (Prices supplied by N M Rothschild)		
Gold (troy oz)	$ price	£ equivalent
Close	351.50-352.00	
Opening	351.40-351.90	
Morning fix	352.25	229.031
Afternoon fix	351.75	228.598
Day's high	352.60-353.00	
Day's low	350.80-351.20	

Loco Ldn Mean Gold Lending Rates (Vs US$)			
1 month	2.70	6 months	2.56
2 months	2.64	12 months	2.54
3 months	2.60		

Silver fix	p/troy oz	US cts equiv
Spot	278.30	426.50
3 months	280.20	428.60
6 months	283.85	431.90
12 months	291.55	439.60

GOLD COINS		
	$ price	£ equivalent
Krugerrand	351.00-354.00	228.00-231.00
Maple leaf	361.95-364.25	-
New Sovereign	83.00-86.00	53.00-56.00

TRADED OPTIONS				
Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Oct	Jan	Oct	Jan
1125	28	59	10	20
1150	14	44	21	30
1175	6	32	38	43
Copper (Grade A)	Calls		Puts	
1900	80	77	20	63
1950	32	54	42	80
2000	15	37	75	122
Coffee	Nov	Jan	Nov	Jan
1200	103	110	35	68
1250	74	85	56	83
1300	52	66	84	124
Cocoa	Dec	Mar	Dec	Mar
775	98	129	12	21
800	80	111	18	28
825	64	94	27	36
Brent Crude	Oct	Nov	Oct	Nov
1650	3	33	44	58
1700		18		91
1750		9		

New York

GOLD 100 troy oz.; $/troy oz.				
	Close	Previous	High/Low	
Sep	351.2	350.1	0	0
Oct	351.9	350.8	352.7	350.4
Nov	352.7	351.6	0	0
Dec	353.8	352.5	354.7	352.8
Feb	355.2	354.1	356.1	354.4
Apr	356.8	355.7	357.4	355.5
Jun	358.4	357.3	359.3	357.7
Aug	360.0	358.9	361.0	359.4
Oct	361.6	360.5	0	0

PLATINUM 50 troy oz; $/troy oz.				
	Close	Previous	High/Low	
Oct	357.2	360.1	359.0	356.0
Jan	357.9	360.9	360.0	357.0
Apr	358.8	361.7	361.0	358.5
Jul	359.6	362.5	361.0	359.0

SILVER 5,000 troy oz; cents/troy oz.				
	Close	Previous	High/Low	
Sep	421.8	426.1	426.0	419.0
Oct	423.0	427.3	0	0
Nov	425.4	429.7	0	0
Dec	425.7	430.0	433.0	421.0
Jan	426.0	430.4	0	0
Mar	429.8	434.2	437.0	426.0
May	432.6	437.1	439.0	427.0
Jul	435.2	439.7	442.0	434.5
Sep	437.9	442.5	433.0	433.0
Dec	442.4	447.1	450.0	440.5

HIGH GRADE COPPER 25,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Sep	84.70	85.50	85.55	84.30
Oct	84.80	85.60	85.25	84.80
Nov	84.90	85.70	84.80	84.80
Dec	85.00	85.85	85.70	84.50
Jan	85.10	85.85	85.70	85.70
Feb	85.15	85.90	0	0
Mar	85.25	85.90	85.70	85.00
Apr	85.35	85.95	0	0
May	85.50	86.00	85.90	85.40
Jun	85.60	86.00	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel				
	Latest	Previous	High/Low	
Oct	17.04	17.07	17.20	16.94
Nov	17.40	17.42	17.55	17.33
Dec	17.70	17.73	17.83	17.63
Jan	17.93	17.95	18.03	17.86
Feb	18.18	18.14	18.20	18.05
Mar	18.28	18.30	18.39	18.28
Apr	18.43	18.43	18.47	18.40
May	18.57	18.56	18.60	18.54
Jun	18.66	18.68	18.72	18.64
Jul	18.77	18.78	18.77	18.77

HEATING OIL 42,000 US galls, cents/US galls				
	Latest	Previous	High/Low	
Oct	51.30	51.13	51.60	50.80
Nov	52.20	52.10	52.80	51.80
Dec	53.20	53.12	53.55	53.00
Jan	53.85	53.82	54.30	53.75
Feb	54.20	53.12	54.65	54.10
Mar	53.80	53.47	53.90	53.60
Apr	52.80	52.47	53.00	52.45
May	52.00	51.72	52.30	51.95
Jun	51.70	51.52	51.70	51.55
Jul	52.00	51.57	52.00	51.60

COCOA 10 tonnes;$/tonnes				
	Close	Previous	High/Low	
Sep	1065	1033	1083	1065
Dec	1144	1119	1163	1126
Mar	1192	1169	1211	1177
May	1215	1187	1230	1206
Jul	1236	1207	1247	1230
Sep	1255	1225	1267	1244
Dec	1279	1245	1288	1288
Mar	1306	1275	1312	1305
May	1325	1291	0	0

COFFEE "C" 37,500lbs; cents/lbs				
	Close	Previous	High/Low	
Sep	76.00	75.35	77.00	76.00
Dec	78.60	78.25	79.70	78.40
Mar	81.10	80.50	81.70	80.80
May	82.50	81.90	82.70	82.25
Jul	83.65	83.15	84.10	83.65
Sep	85.00	84.35	85.25	85.00
Dec	88.00	88.00	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Oct	9.09	9.20	9.24	9.05
Mar	9.58	9.64	9.69	9.52
May	9.74	9.80	9.83	9.73
Jul	9.84	9.91	9.92	9.83
Oct	9.88	9.93	9.94	9.87

COTTON 50,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Oct	55.78	56.08	56.40	55.30
Dec	57.30	57.45	57.75	56.85
Mar	59.00	58.92	59.15	58.45
May	59.83	59.65	59.70	59.35
Jul	60.05	60.13	60.40	59.90
Oct	60.55	60.45	0	0
Dec	60.60	60.50	60.70	60.75

ORANGE JUICE 15,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Sep	119.95	117.60	119.95	118.40
Nov	122.55	120.35	122.60	120.30
Jan	123.75	121.65	123.75	121.65
Mar	124.95	122.75	124.50	123.75
May	125.95	123.65	125.50	125.00
Jul	126.95	124.65	0	0
Sep	126.95	124.65	125.00	125.00
Nov	126.95	124.65	0	0
Jan	126.95	124.65	0	0

INDICES				
REUTERS (Base:September 18 1931 = 100)				
	Sep 8	Sep 7	mnth ago	yr ago
	1638.0	1629.2	1644.7	1502.1
DOW JONES (Base: Dec. 31 1974 = 100)				
	Sep 7	Sep 6	mnth ago	yr ago
Spot	121.63	N/A	125.03	116.67
Futures	125.79	N/A	129.93	115.76

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel				
	Close	Previous	High/Low	
Sep	641/4	638/4	646/0	640/4
Nov	642/4	640/4	648/0	641/0
Jan	646/0	645/6	653/6	646/4
Mar	653/2	651/6	658/4	652/2
May	656/4	655/2	661/0	655/4
Jul	658/6	657/6	664/0	659/0
Aug	657/2	657/4	660/0	657/0
Sep	637/6	634/0	641/0	637/4

SOYABEAN OIL 60,000 lbs; cents/lb				
	Close	Previous	High/Low	
Sep	23.32	23.10	23.41	23.19
Oct	23.35	23.18	23.30	23.26
Dec	23.56	23.34	23.69	23.47
Jan	23.64	23.43	23.78	23.57
Mar	23.72	23.53	23.86	23.65
May	23.73	23.56	23.86	23.68
Jul	23.71	23.55	23.85	23.67
Aug	23.59	23.45	23.65	23.56

SOYABEAN MEAL 100 tons; $/ton				
	Close	Previous	High/Low	
Sep	204.3	202.9	205.4	202.9
Oct	201.3	201.1	203.0	200.6
Dec	200.9	201.1	202.6	200.5
Jan	201.5	201.7	203.0	200.8
Mar	202.7	203.1	204.3	202.0
May	203.4	204.0	205.0	203.0
Jul	204.8	205.0	206.0	204.8
Aug	204.0	204.5	205.5	204.0

MAIZE 5,000 bu min; cents/56lb bushel				
	Close	Previous	High/Low	
Sep	226/6	226/0	229/4	226/0
Dec	234/4	233/0	237/0	233/6
Mar	242/6	241/6	245/4	242/0
May	248/2	247/0	250/4	247/4
Jul	251/2	250/0	253/4	250/6
Sep	247/0	247/2	249/0	247/0
Dec	243/4	243/6	245/0	243/0

WHEAT 5,000 bu min; cents/60lb-bushel				
	Close	Previous	High/Low	
Sep	303/4	300/4	305/0	301/0
Dec	312/0	309/2	313/4	310/4
Mar	316/2	313/6	318/0	314/6
May	311/2	309/4	313/4	310/0
Jul	303/0	301/6	304/4	302/0
Sep	307/4	306/6	0	0
Dec	315/0	313/0	0	0

LIVE CATTLE 40,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Oct	75.875	75.850	76.500	75.700
Dec	75.925	75.875	76.250	75.700
Feb	76.200	76.125	76.525	76.025
Apr	76.900	76.900	77.125	76.750
Jun	73.500	73.500	73.850	73.400
Aug	72.250	72.350	72.600	72.250
Oct	72.950	72.925	73.100	72.950

LIVE HOGS 40,000 lb; cents/lbs				
	Close	Previous	High/Low	
Oct	48.775	47.875	49.300	47.875
Dec	49.000	48.250	49.400	47.900
Feb	47.500	46.900	47.850	46.750
Apr	45.550	45.050	45.850	44.950
Jun	49.725	49.375	49.850	49.200
Jul	48.700	48.400	48.700	48.300
Aug	47.550	47.150	47.600	47.100
Oct	43.950	0	44.075	43.800

PORK BELLIES 40,000 lbs; cents/lb				
	Close	Previous	High/Low	
Feb	52.775	51.125	53.075	51.350
Mar	52.200	50.625	52.600	51.360
May	53.350	51.775	53.500	52.000
Jul	53.000	51.600	53.550	52.350
Aug	52.425	51.500	52.475	51.800

LONDON STOCK EXCHANGE

Rally peters out before trading closes

By Terry Byland, UK Stock Market Editor

A FAVOURABLE report on the domestic economy from the UK Treasury helped the London stock market rally from early weakness yesterday. But the FT-SE 100 Index was edging lower in the final minutes after a mixed set of company trading announcements left the market nervous ahead of what promises to be a test of market confidence today.

Suggestions of a large rights issue in the food manufacturing sector this morning subdued traders, who were already cautious ahead of today's profits statements from Glaxo, British Gas and RTZ, as well as the meeting of the Bundesbank policy committee.

A highly disappointing interim profits report from P & O, the cross-Channel ferries operator and property group, was received badly. But this was balanced by better news from Wimpey, the housebuilder, and from Prudential, the blue chip insurance group.

In early deals, equities gave ground sharply, albeit without suffering any great selling pressure. The Footsie lost a further 16.5, bringing it down to 3,022.1 and increasing traders' concern over the depth of the shakeout seen since last week's peak.

However, a rally then set in which gathered pace for a while after the latest monthly report from the UK Treasury stressed the falls in real interest rates in the UK, downward pressures on inflation and rising retail sales.

The early losses in share prices were recovered and the Footsie only just failed to move into positive territory, helped by firmness in the government bond market as sterling improved behind the Treasury's report. But later in the session, a weak opening on Wall Street, down 14 Dow points in London hours, left UK stocks to drift off again for a final close on the FT-SE 100 of 3,035.4, a loss of 3.2 on the day. The FT-SE Mid 250 Index shed 7.8 to 3,462.4.

Seaq trading volume dipped to 500.3m shares, from 636.2m on Tuesday, when customer, or retail, business made a good recovery after Wall Street's closure on Monday, to return a value total of £1.35bn. This compares well with the turnover levels seen at the market peak. Non-Footsie shares were active yesterday, representing about 62 per cent of the Seaq total.

The London market was held back by continued weakness in the pharmaceuticals sector, which took its lead from a fall in Glaxo ahead of the trading report. Oil shares, too, reacted to lack of support for crude oil prices.

Domestic consumer and retail sectors tried to respond to the favourable comments from the UK Treasury but gains were mostly modest and were trimmed back before the close. The telecommunications sector, shaken up on Tuesday by Mercury's plans to increase competition in the mobile phones market, steadied.

Analysts were disinclined to pronounce on the prospects of a cut in rates by the Bundesbank today, although some claimed that nothing short of a full point cut in discount rate would have much effect on the London market.

■ The FT-SE Actuaries UK Indices Committee yesterday approved the following constituent changes to the FT-SE 100 Index, to take effect on Monday, September 20. Additions: MEPC, Rolls-Royce, Schroders. Deletions: De La Rue, Tate & Lyle, Scottish Hydro-Electric.

TRADING VOLUME IN MAJOR STOCKS

Stock	Volume 000's	Closing Price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † Indicates an FT-SE 100 Index constituent.

Account Dealing Dates

First Dealings:	Aug 16	Sep 6	Sep 20
Option Declarations:	Sep 2	Sep 16	Sep 30
Last Dealings:	Sep 3	Sep 17	Oct 1
Account Day:	Sep 13	Sep 27	Oct 11

"New time dealings may take place from two business days earlier.

P & O hit by profit revisions

TRANSPORT and property group Peninsular and Oriental Steam Navigation (P & O) suffered a steep drop after the company stunned the market by reporting interim figures significantly below the worst market forecasts.

Profits fell 11 per cent to £80.1m, against a restated £89.9m. The range of forecasts was £95m to £150m. The shares initially hardened a penny to 669p as dealers appreciated the fact that the company was to make a much predicted enhanced scrip dividend alternative.

However, this brief optimism turned to gloom as analysts were presented with a poor view of the near term outlook at their meeting with the board. Aside from the disappointing profits, researchers were particularly concerned by the higher than expected debt levels, the prospect of stiffer competition from the Channel tunnel next year, and overcapacity in the container shipping market.

As securities houses downgraded current and following year's forecasts, the shares dropped 49 to 619p in hefty trade of 16m, the highest daily total since 1989, with income funds said to have been the day's biggest sellers.

Analysts were particularly angry that the company had given no indication of the state of current trading, several complaining that this could have been covered when the company met them in June.

Mr Mike Stoddart at Charterhouse Tilney, who reduced his year-end forecast by £28m to £225m, said: "It appears the City confused the company's long term optimism with the state of current trading."

UBS was said to have cut its forecast by £40m to £250m, while Nikko was believed to have reduced its estimate by £25m to 248m.

Blenheim drops

The recession in continental Europe lay behind a sharp fall in the share price of Blenheim, the conference and exhibitions organiser, which dropped 43 to 355p, a two-year low.

Blenheim announced an 18 per cent rise in first-half profits to £15.4m, but the company generates much of its profits from France. It said yesterday: "There have been some signs of revival in the economies of the US and UK but those of France and Germany have continued to deteriorate."

The statement upset a number of analysts' forecasts, and Blenheim's broker BZW cut its 1994 prediction by £11m to £43m. Reed International, which is also heavily exposed to European exhibitions, fell 11 to 700p.

Reuters leaps

News and electronic information group Reuters Holdings jumped in late trading as US buyers, unable to find stock in their home market, bought through the London market ahead of a key presentation in New York.

Dealers who trade between New York and London reported sharp interest from Merrill Lynch and several small US brokers which boosted the share price by 26 to 1544p.

Senior Reuters board members will give a seminar in New York to analysts early next week to discuss the company's forthcoming projects.

Cadbury speculation

More talk of a rights issue to accompany results from Cadbury Schweppes this morning was heard. Rumour-mongers attempting to put more gloss on the story were speculating that the company would be looking to raise an additional £300m to buy either a beer producer in the US, or to increase its stake in Dr Pepper. Suggestions of a bid for United Biscuits also resurfaced amid the chatter. However, Cadbury shares withstood the uncertainty, rallying to close 2 up at 470p in turnover of 2.2m. UB lost 8 to 376p.

Airtours shares moved forward 6 to 413p. Later in the session, the company announced it was changing its broker from BZW to Hoare Govett. It also emerged that it was also sacking its financial PR and adding Morgan Grenfell as bankers. Earlier this year, Airtours narrowly lost a bitter battle for control of rival holiday operator Owners Abroad. Its shares nudged up a penny to 87p.

Pharmaceutical stocks slid in early trade, following weaker drug stocks in the US and stronger sterling overnight.

Glaxo, which is to announce full-year figures today, fell 12 to 601 as small investors in the US decided to take profits, and SmithKline Beecham lost 7½ to 444½p as US brokerage Wertheim Schroder published research arguing the SmithKline's growth will slow dramatically. Wellcome slid 4 to 729p. The falls followed profit-taking in US drug stocks, including Merck, Johnson and Johnson and Pfizer.

A strong pound, which rose almost two cents against the dollar on Tuesday to its highest level for over three months, depressed the translation value of US earnings. The drug sector had gained last week on a report suggesting that the US government would not impose compulsory price controls on health care companies in its forthcoming reforms.

The composite insurers bucked yesterday's lacklustre trend with Royal Insurance particularly buoyant after announcing the $59m disposal of its US subsidiary. The shares gained 10 to 317p.

Media conglomerate Pearson, which owns the *Financial Times*, lifted after BSkyB, in which Pearson has an interest of 17.5 per cent, unveiled first full-year profits of £62.3m before interest payments. Also, S.G. Warburg raised its 12-month forecast for the share price by 80p to 620p. Pearson shares closed 12 higher at 529p and Granada, which also has a stake in the satellite TV channel, lifted 3 to 445p.

Meanwhile, Carlton Communications whose video duplication business is likely to suffer from the new pay per view video services that have been discussed by BSkyB slipped 12 to 752p.

Oil stocks slipped in reaction to lower crude prices, which fell sharply after the International Energy Agency cut global demand forecasts on Tuesday, and concern about an OPEC meeting in Geneva on September 25. Enterprise led the fall, losing 12 at 475p after a good run in the past three weeks. Shell was down 5 at 658p and BP fell 4¼ to 299½p.

British Gas was firm ahead of first-half results today closing 1¼ ahead at 325½p. The company announced last month it expected to report a profit of not less than £508m on a current cost basis, after £498m a year ago and £634m on an historical cost basis, after £635m.

Stores stocks responded to reports of continued recovery in retail sales. Kleinwort Benson was also steering investors in search of short-term gain towards selected consumer shares. Among stores stocks, Boots gained 8 to 493p, GUS 38 to 2108p and WH Smith 4 to 458p.

With the army and navy equipment exhibition currently being held in Aldershot, VSEL were in demand and the shares gained 11 to 877p, with several investors having visited the company at the show.

Bargain hunters reassed Williams Holdings, whose figures earlier this week had disappointed the market. The shares bounced 4 to 330p, in trade of 2.7m.

Shares in British Airways gained 6 to 367p in active trade of 5.9m with Kleinwort Benson said to have recommended the stock. Ocean Group disappointed the market by reporting interim figures, unchanged from a year earlier at £20.8m and an unchanged dividend at 4.7p. The shares lost 9 to 325p.

RTZ, the world's biggest mining group, fell 5 to 718p ahead of first half results today.

General trader Inchcape gained 3 to 563p as Gartmore, the investment fund, announced it had increased its stake to 4.01 per cent.

UK Land, which underwent a financial reconstruction involving a 22-for-1 rights issue on Tuesday, again saw further gains in its shares. After opening at 1¾p on Tuesday and closing at 29¼p, they advanced 20¾ yesterday to finish at 51p.

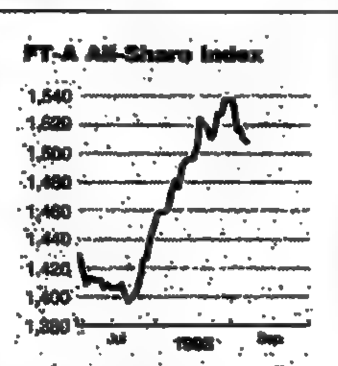
Nervous trading in international conglomerate BTR left the shares 2 lighter at 399p, ahead of today's figures. Volume was 4.3m at the close.

Agency broker Panmure Gordon was said to have advised investors to sell Cookson group. The shares eased 4 to 211p.

MARKET REPORTERS:
Christopher Price,
Peter John,
Joel Kibazo.

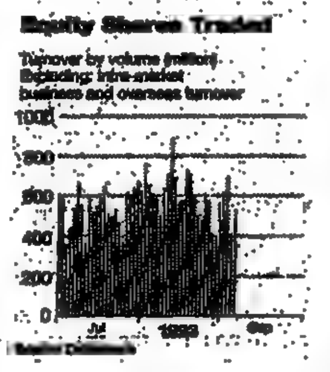
■ Other statistics, Page 28

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



NEW HIGHS AND LOWS FOR 1993

NEW HIGHS (140). [illegible] ... (1) South Staffs.

NEW LOWS (11).
CANADIANS (2) Inco, Nova Corp. of Alberta, BUSINESS SERVS (1) REA, HEALTH & HSEHOLD (1) Kynoch, HOTELS & LEIS (1) First Leis., INSCE COMPOSITE (1) F'stabel Gellon, MEDIA (2) Blenheim, Do 6.4pc Pf., OTHER INDLS (1) AAF, PACKG, PAPER & PRINTG (1) Sappi, SOUTH AFRICANS (1) Tiger Oats.

FINANCIAL TIMES EQUITY INDICES

	Sep 8	Sep 7	Sep 6	Sep 3	Sep 2	Year ago	*High	*Low
Ordinary share	2372.6	2379.7	2396.8	2390.7	2401.4	1698.7	2414.2	2134.7
Ord. div. yield	3.85	3.86	3.85	3.86	3.84	5.23	4.52	3.82
Earning yld % full	4.59	4.58	4.55	4.58	4.58	7.57	6.38	4.51
P/E ratio net	27.79	27.88	28.07	28.02	28.17	16.66	28.30	19.48
P/E ratio nil	25.66	25.75	25.92	25.88	26.01	15.53	26.14	18.14
Gold Mines	149.3	170.0	177.2	178.3	180.8	86.6	240.2	60.0

*for 1993. Ordinary share index since compilation: high 2414.2 31/8/93 - low 49.4 26/6/40
Gold Mines Index since compilation high: 734.7 15/2/83 - low 43.5 26/10/71
Basis Ordinary share 1/7/35; Gold Mines 12/9/55.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2385.7	2370.1	2371.9	2385.4	2374.8	2374.8	2375.3	2372.8	2371.1	2375.8	2363.7

Volume	Sep 8	Sep 7	Sep 6	Sep 3	Sep 2	Year ago
SEAQ Bargains	25,882	28,855	28,286	[illegible]	35,138	15,389
Equity Turnover(£m)†	-	[illegible]	811.4	1489.5	1727.7	781.7
Equity Bargains†	-	28,927	32,375	43,902	40,348	18,548
Shares traded (mil)†	-	537.4	482.0	684.4	613.7	397.5

† Excluding intra-market business and overseas turnover.

London report and latest Share Index
Tel. 0891 123001. Calls charged at 36p/minute cheap rate, 48p at all other times.

FT-SE Actuaries Share Indices — THE UK SERIES

FT-SE 100	FT-SE MID 250	FT-A ALL-SHARE
3035.4 -3.2	3462.4 -7.8	1509.36 -2.02

	Sep 8	Day's change %	Sep 7	Sep 6	Sep 3	Year ago	Dividend yield %	Earnings yield %	P/E Ratio	Xd adj ytd	Total Return
FT-SE 100	3035.4	-0.1	3038.6	3059.0	3057.3	2327.5	3.79	5.67	21.64	68.18	1098.68
FT-SE Mid 250	3462.4	-0.2	3470.2	3475.7	3478.9	2179.1	3.50	5.50	22.36	69.20	1243.33
FT-SE Mid 250 ex Inv Trusts	3478.0	-0.3	3487.3	3493.3	3485.4	2186.1	3.59	5.67	21.13	70.48	1244.29
FT-SE-A 350	1521.8	-0.1	1523.8	1532.3	1531.9	1119.2	3.72	5.63	21.96	33.32	1128.63
FT-SE SmallCap	1783.53	-0.1	1786.17	1785.77	1780.31	-	3.12	3.85	36.08	30.22	1339.77
FT-SE SmallCap ex Inv Trusts	1784.71	[illegible]	1787.58	1786.65	1779.62	-	3.29	4.23	33.92	[illegible]	1341.78
FT-A ALL-SHARE	1509.36	-0.1	1511.38	1519.21	1518.59	[illegible]	3.89	5.52	22.51	32.58	1139.37
1 CAPITAL GOODS(214)	1083.76	-0.2	1085.52	1086.89	1085.45	864.23	3.85	3.84	34.39	22.83	1274.87
2 Building Materials(26)	1158.75	—	1159.94	1167.31	1164.35	617.65	3.93	3.23	43.88	22.93	[illegible]
3 Contracting, Construction(35)	1035.52	-0.3	1038.12	[illegible]	1036.88	485.72	3.18	1.26	80.00†	[illegible]	[illegible]
4 Electricals(15)	3150.23	-0.3	3158.22	3167.34	3128.36	1991.00	[illegible]	3.41	38.69	75.17	1273.95
5 Electronics(35)	2824.87	—	2824.79	2823.38	2810.74	1879.14	2.96	5.71	21.41	63.37	1280.87
6 Engineering-Aerospace(7)	445.18	-0.3	446.30	441.42	438.55	280.79	[illegible]	‡	‡	6.61	1307.10
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE Mid 250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A 350	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FT-SE Actuaries 350 Industry Baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous close	Change
Construction	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Health&H	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Water	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Banks	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

	Notes	Price £	+or-	1993 High	1993 Low	Yield Int.	Yield Red.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER FIXED INTEREST

	Notes	Price £	+or-	1993 High	1993 Low	Yield Int.	Yield Red.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

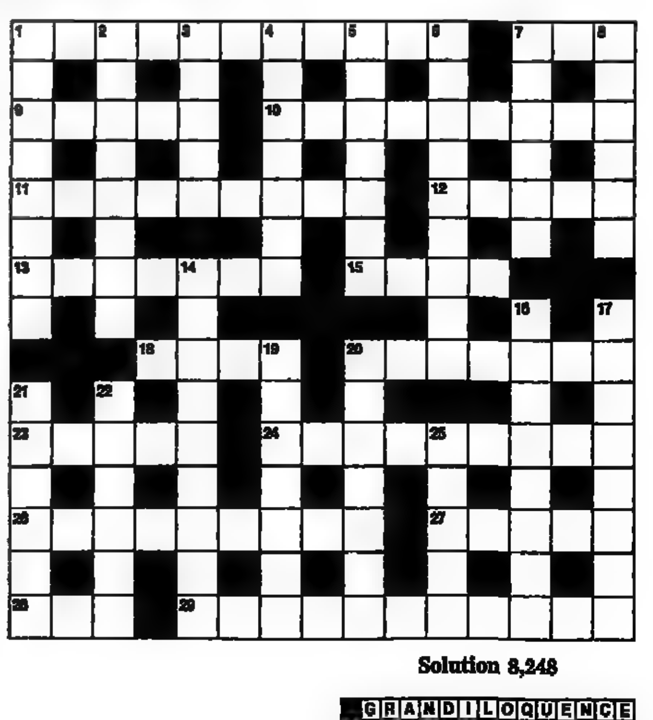
Continued on next page

CROSSWORD

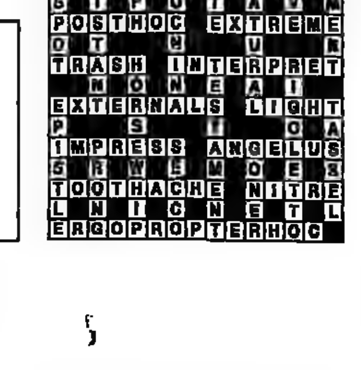
No.8,249 Set by HIGHLANDER

ACROSS
1 Paint spray added authenticity (11)
7 Prize for holding one's drink? (3)
9 Starts to revive our sickly looking ash (5)
10 Make less obvious – the converse of hard sell when conversing (4-5)
11 Crusade against English family store (9)
12 Bring up in lift (5)
13 Give course and time for direct descent (7)
15 Go even though injured (4)
18 It symbolises pitch in music, left side of stave (4)
20 Clever rounded piece to catch insects (7)
23 With nothing to gain Greek leader is unsettled (5)
24 Graduate on platform takes part in complicated procedure (9)
26 Diamond I lost in confusion on the river (9)
27 Homer's work begins in 51AD (5)
28 Draught produces severe cold (3)
29 Forward with the Conservatives? (5-6)

DOWN
1 We are run over by man with beastly nocturnal habits (8)
2 Very tall to unorthodox winger (8)
3 Big farm in USA administered by the Church (5)
4 Ex-pupils make better cover (7)
5 Compensates for bad scenery and props (7)
6 King and Tory peer arranged the entire stock (9)
7 They say the rotter is fly (6)
8 Shout "Up, up", lifting wheel (6)
14 Crocodile and gorilla at variance (9)
16 Allegedly depicted Erica showing excessive pleasure (8)
17 Distributor's banquet attended by Queen (8)
19 Agriculture in distant China? (7)
20 Use FBI agents in sudden attack? Fantastic idea (7)
21 Petty Officer regularly takes injurious substance (6)
22 Medicine provided lift and stimulant (6)
25 Defence bail out innocent leader (5)



Solution 8,248



JOTTER PAD

EQUITY FUTURES AND OPTIONS TRADING

TRADING IN the futures market remained in familiar territory yesterday as dealers tried, in good two-way business, to anticipate the outcome of today's Bundesbank meeting, writes Christopher Price.

After a weak opening, the September Footsie contract moved slowly forward in what were described as squeezy conditions, with some eyes fixed on next week's expiry date. There was more evidence of investors rolling positions into the December contract, where volume yesterday reached more than 3,000 contracts.

The Treasury report and firm gilts and short sterling, together with some continued optimism that good news may be forthcoming from Germany today, helped to sustain the rally, and September led the cash market higher in the morning session, although the good two-way business saw some volatile swings.

A high for the day of 3,049 was reached shortly after midday, after which September drifted back slightly, eventually closing at 3,036, around three points ahead of the underlying cash market. Volume was a steady 11,474 contracts.

The options market recorded a strong 40,000 contracts, with the FT-SE 100 option accounting for 15,000. BTR, which reports results today, saw 5,500 contracts traded. Amstrad was also busy, with 1,795 lots dealt, as were BT, British Gas, Glaxo and National Westminster Bank.

LONDON SHARE SERVICE

AMERICANS

	Notes	Price £	+ or -	1993 high	1993 low	Mkt Cap£m	Yld Gr's
Abbott Labs		17¼xd	-⅛	20¼	15⅝	14,332	2.7
Allegheny & W	♥	519p	-81	722p	389p	287.3	3.9
Amdahl		308p	-10	591p	302½p	345.9	1.1
Amer Cyanamid		35⅛	-⅛	38⅝	31¼	3,156	3.3
[illegible]		27⅞xd	-⅜	28⅞	14⅞	10,406	3.1
Amer T & T		40⅞xd	-2⅞	43¾	33⅛	64,324	2.2
Ameritech		57	+1½	58½	46	24,956	4.4
Anheuser-Busch		31⅞	+⅛	41¼	30⅛	8,630	2.9
BankAmerica		30⅛xd	-⅛	38¼	27⅛	10,710	3.1
Bankers NY		52¼xd	-1⅛	54¾	42⅝	4,193	4.0
Bell Atlantic		41¼	-¼	42½	32⅛	17,920	4.4
BellSouth		39	-⅛	39⅝	32⅞	19,269	4.8
Bethlehem Steel	♥	8¾xd	—	13¾	8¼	782.0	-
Bowater		1313pxd	—	1662p	1267p	476.8	3.1
CPC		29⅞xd	+⅛	34⅝	29	4,439	2.9
California Engy		1165p	—	1479p	1085p	212.3	-
Chase Manhattan		23¼xd	+½	24½	17⅞	3,606	3.5
Chrysler		27⅞xd	+⅛	32⅛	21¼	8,034	1.5
Citicorp		21⅞xd	+⅛	22⅛	13⅞	7,882	-
Colgate-Palm		33⅝xd	+⅛	45⅝	32	5,368	2.9
Cont'l Bank		1596p	-17	1877p	1278p	1,814	2.5
Dana		35¼xd	+¼	37⅞	29⅞	1,641	3.0
Data General		660p	-35	951p	527p	154.6	-
Decora Inds	♥	119p	—	146p	104p	-	-
Dun & Brad		39⅝	-1⅞	42⅞	37⅛	7,065	4.2
Eaton		31⅛	-¼	33⅛	25⅞	2,165	2.6
Echlin		18¼xd	-⅛	20½	15⅛	1,063	2.6
FPL		25⅞xd	+⅛	27⅝	23¼	4,688	6.4
Ford Motor		33¼xd	+¼	36½	28⅞	16,298	2.0
Gen Elect		63⅛xd	-⅛	67⅛	53⅞	53,911	2.7
General Host	♥	479p	—	722p	458p	-	5.0
Gillette		34⅞xd	-⅛	42⅝	31⅛	7,666	1.6
Hasbro		20⅞	—	20⅞	20⅛	1,819	0.8
Honeywell		22⅞xd	—	28½	20⅞	3,128	2.6
Houston Inds		30¼	—	33¼	28¼	3,917	6.6
Ingersoll-Rand		24⅝xd	-¼	25¼	19⅛	2,572	1.9
Lockheed		40⅞	—	45⅞	35⅛	2,519	3.6
Lowe's		2531p	-46	2748p	1573p	1,846	0.8
[illegible] Technology		269p	+4	330p	127p	-	-
Merrill Lynch		61¼xd	+1½	65¼	37	6,546	1.5
Morgan (JP)		49½xd	-⅞	50⅝	38¾	9,484	3.2
Morris (Philip)	♣	31⅛xd	-⅛	52⅞	28	27,560	5.6
NYNEX		60¼	+¼	64⅛	52¼	12,444	5.2
Pall		12⅞	+⅛	15	10⅞	1,435	1.7
Pennzoil		43⅛xd	-1⅝	47⅛	31⅞	1,760	4.7
Quaker Oats		44⅞xd	+⅛	50⅞	39⅞	3,284	3.2
Quester		472p	-1	687p	491½p	44.6	-
Rockwell		23¼xd	+⅛	24⅞	18⅞	5,089	2.9
Rep NY		34⅞xd	—	37⅞	29¾	1,799	2.1
Sears, Roebuck		35⅞xd	+⅛	38⅞	18⅞	9,209	3.0
Sthwestern Bell	h	29	-⅛	30½	23⅛	17,352	3.5
Sun Co		17⅞xd	-⅛	21⅛	14⅛	1,869	6.7
Tenneco		34⅞xd	-¼	38¼	25½	5,896	3.1
Texaco		42⅞xd	-⅛	44¼	37⅞	10,880	5.0
Time Warner		27⅛xd	-⅛	27½	18⅝	10,586	0.8
Unilab	♥	422p	+8	509p	358p	192.1	-
US West		30¼	-¼	31⅛	24¼	12,537	4.7
Varity		2482p	-47	2579p	1686p	750.5	-
WMX Technologies		20⅞xd	-½	27⅛	19¾	10,238	1.9
Whirlpool		4113pxd	+2	4577p	2824p	2,875	2.0
Woolworth	♥	16⅝	-⅛	21½	16⅛	2,183	4.7

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

Net asset values supplied by NatWest Securities Limited as a guide only. See guide to London Share Service.

INVESTMENT COMPANIES

Net asset values supplied by NatWest Securities Limited as a guide only. See guide to London Share Service.

MEDIA

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

MOTORS

OIL & GAS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIALS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES

STORES - Cont.

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

MINES - Cont.

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

□ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
● "Top Stock"
* Highs and lows marked thus have been adjusted to allow for rights issues for cash
† Interim since increased or resumed
‡ Interim since reduced, passed or deferred
‡‡ Tax-free to non-residents on application
◆ Figures or report awaited
● Not officially UK listed; dealings permitted under rule 535(4)(a)
♣ Free annual/interim report available, see details below.
❖ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
†† Not officially UK listed; dealings permitted under Rule 535(2)
§ Price at time of suspension
¶ Indicated dividend yield after pending scrip and/or rights issue.
◆ Merger bid or reorganisation in progress
§ Forecast dividend yield; p/e based on earnings updated by latest interim statement.
◆ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment
E Auction basis
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1992-93
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Figures based on IMR 'Headline Earnings' draft proposals.
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xf ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣ . Ring 081 643 7181 (open 24 hours including weekends) or fax 081 770 3822, quoting the code FT4014. [If calling from outside UK, dial +44 81 643 7181 or fax +44 81 770 3822] Reports will be sent the next working day, subject to availability. If faxing please remember to state the weekly changing FT code above and also your post code.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.

An international service is available for callers outside the UK, annual subscription £250 stg.

Call 071-873 4378 (+44 71 873 4378, international) for more information on FT Cityline.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (✣) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (▲) - 1401 to 1700 hours; (#) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Singer & Friedlander UT Mgmt Ltd (1000)F						
PO Box 224, Beckenham, BR3 4TF 081-663 3000						
European Trust	6	56.12	56.24	59.88	-1.07	1.88
Far Eastern Tst	6	67.45	68.39xd	72.89	-1.07	1.88
Smaller Cos	5	169.7	174.7xd	185.5	+4.8	1.53
Smith & Williamson Unit Tst Mgrs (1700)F						
1 Riding House St, London W1A 3AS 071-637 5377						
S & W American	6	271.5	272.2	287.8	+1.5	0.51
S & W Capital	5	124.7	124.7xd	133.9	-0.8	1.36
S & W Cash	0	102.03	102.03	102.03	+0.01	5.41
S & W European	5	120.6	120.9	127.8	-1.9	0.75
S & W Far Eastern	5	160.4	162.3	171.7	-0.6	0.00
S & W Growth	5	134.0	135.8xd	143.7	-0.7	1.61
S & W Income	5	121.8	122.8xd	129.8	-0.1	4.54
S & W Magnum	5	131.9	131.3	141.0	-1.0	1.32
S & W Smlr Secs	5	341.0	340.0	359.2	-0.5	0.58
S & W Thoroughbred	6	154.0	154.0xd	165.5	-1.2	1.24
Sovereign Unit Tst Mngrs Ltd (1000)F						
12 Christchurch Rd, Bournemouth 0202 298422						
Cash	1	50.13	50.13	50.63	—	5.3
Capital Prinance	5½	58.88	58.95xd	62.85	+0.03	7.3
Ethical	5½	55.42	56.25xd	59.83	-0.15	3.6
European Growth	5½	63.73	64.75	68.40	-0.09	2.5
Income	5½	66.03	66.60	60.26	-0.18	5.4
Intl Growth	5½	86.12	86.71	92.49	-1.08	2.7
Managed	5½	73.80	74.03	79.60	-0.73	3.3
UK Growth	5½	69.01	59.60xd	63.57	-0.27	4.1
Standard Life Tst Mgmt Ltd (0730)H						
3 George St, Edinburgh EH2 2XZ 0800 393777						
Managed Acc	5¼	46.86	46.86	49.70	-0.4	1.48
UK Equity Gth Acc	5¼	63.54	64.65	68.71	-0.1	1.08
UK Eq High Inc Inc	5¼	38.33	38.33	40.73	—	3.61
UK Eq High Inc Acc	5¼	45.52	45.52	48.37	—	3.61
UK Equity Gen Acc	5¼	57.28	58.32	61.97	-0.4	2.04
UK Equity Gen Inc	5¼	43.38	44.18	46.93	-0.3	2.04
UK Larger Cos Acc	F 7½	394.7	400.0	434.1	-2.3	3.58
UK Larger Cos Inc	F 7½	303.1	307.2	333.4	-1.8	3.58
Gilt & Fxd Int Inc	5¼	33.42	33.51	35.44	+0.2	6.79
O'seas Lrg Cos Acc	F 7½	289.5	289.8	314.6	-4.5	1.19
Nth American Acc	5¼	42.00	42.87	45.55	-0.7	0.85
Far East Acc	5¼	60.62	60.62	64.41	-0.5	0.20
European Acc	5¼	44.18	44.18	46.95	-0.8	0.70
State Street Unit Trust Mngmt Ltd (1400)F						
26 King Street, London SW1 6QW 071-344 7000						
Global A	5¼	3.771	3.771	4.006	-0.6	1.35
US Equities (a)	5¼	2.180	2.180	2.325	-0.027	1.15
Far East Equities (a)	5¼	[illegible]	252.6	268.1	+2.00	—

	Bid Price	Offer Price	+ or -	Yield Gross
Foreign & Colonial Unit Management Ltd				
Balanced Acc Aug 31	198.0	206.80	-3.0	2.97
Balanced Inc Aug 31	195.5	203.1	-2.9	2.97
Latin American Acc Aug 31	117.9	118.2	+0.4	1.49
Funds In Court*				
Capital Aug 19	580.27	580.79	—	3.58
Gross Aug 19	220.80	222.37	—	8.49
High Yield Aug 19	381.93	384.83xd	—	7.74
*Restricted to monies under Court control				
Govett (John) Unit Mngmt Ltd				
Managed Exempt	118.82	119.35	-0.28	3.00
Henderson Unit Trust Management Ltd				
Pensions Mngd	69.25	67.81	-0.39	2.66
Henderson Tft				
Ex European	1419.89	1429.19	-25.75	1.22
Ex Nth American	1387.24	1379.58	-24.81	0.83
Ex Pacific Basin	1004.64	1022.51	-9.00	0.51
Ex Smaller Cos Inc	2148.33	2258.82	-5.68	2.19
Ex Smaller Cos Acc	2392.15	2428.32	-6.07	2.19
INVESCO Asset Management Ltd				
Exempt Funds				
Asia & Australasia	£3.4730	3.5510	—	2.28
Japan	£2.3130	2.5600xd	—	0.00
Intl Mngd P'Folio(1000-1)	£1.6390	1.7420	—	1.01
Mngd Pens (Acc)	£0.9184	0.9825	—	3.65
North American	£2.5140	2.5370	—	2.57
Smaller Companies	£1.5460	1.6040xd	—	3.60
UK Core	£1.0620	1.0920xd	—	4.28
Jupiter Merlin Unit Trust Managers Ltd				
Jupiter Merlin Exempt Trust				
UK Equity	£13.73	13.89	—	—
Lazard Brothers & Co. Ltd				
Property Aug 5	22050.0	2235.0	—	7.00
Inc Gth Prp Jul 12	£1440.0	1600.0	—	8.90
Lazard Investors Ltd ‡				
Exempt Funds				
Small Co's Sep 8	5535.6	5740.2	+34.80	2.30
European Sep 8	2759.8	786.4	-85.30	1.44
American Sep 8	2420.2	432.5	-17.10	1.40
Japan Sep 8	5614.8	822.0	-13.70	0.40
Pacific Sep 8	2204.5	206.1	-5.80	0.84
Midland Gth Jul 30	£129.89	140.70	—	3.7
Local Authorities Mutual Invest. Tst.*				

INSURANCES

OTHER UK UNIT TRUSTS

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Providence Capital Life Assc. Co Ltd - Contd.

Save & Prosper Group (z)

Sun Alliance Group - Contd.

Woolwich Life Assurance Co Ltd

Zurich Life Assurance Co Ltd

Royal Skandia Life Assurance Ltd (z)

Butterfield Fund Mngrs (Guernsey) Ltd

Equitable International Fund Managers Ltd

Merrill Lynch Guernsey

Lazard Fund Managers - Contd.

Kleinwort Benson Capital Mngt (Ireland) Ltd

Morgan Grenfell Fund Mngrs (Ireland) Ltd

Morgan Grenfell Profunds Plc

Old Mutual International Fd Mngrs Ltd (q)

OFFSHORE INSURANCES

MANAGEMENT SERVICES

IRELAND (SIB RECOGNISED)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (REGULATED)(**)

JERSEY (SIB RECOGNISED)

FT MANAGED FUNDS SERVICE

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John Govett (Channel Islands) Ltd (1000)F
6 Mincon Pace, Helier, Jersey 0534 35575

Global Stock Inv Ltd (Fully Govett Fluctions)

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Global Equity		-		-		
Global High Income	5½	$11.18	11.18	11.21	-	-
Dollar Cash	5½	$8.94	8.94	8.97	+0.03	10.6
Japanese Smllr Cos	5	Y990	990	1002	-	3.00
Far East Equity	6½	$17.31	17.31	17.73	+0.11	0.00
US Smaller Cos	6½	$17.22	17.22	17.61	-0.44	1.60
European Equity	6½	[illegible]	13.32	13.40	-0.10	0.75
UK High Income	5	25.50	6.50	6.61	+0.07	2.00

Initial charge may alter for sales in other jurisdictions

Hill Samuel Fund Mgrs (Jsy) Ltd (1000)F
PO Box 63, Bond Street, St. Helier, Jersey 0534 604814

Lloyds Bank (CI) U/T Mgrs.
PO Box 195, St Helier, Jersey 0534 284242

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Lloyds Tst. Gilt	3½	[illegible]	10.900	11.260	[illegible]	7.09

Dealing daily

Midland Bank Fund Managers (Jersey) Ltd
PO Box 26, St Helier, Jersey 0534 606000

Prudential Fund Managers (Jersey) Ltd

Bank Von Ernst & Cie AG - Contd.

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Global Equity		$-	11.00	-	-0.03	-
Global Bond		$-	12.05	-	+0.01	-
Global Bond Div		$-	10.58	-	+0.01	-
Global Managed		$-	10.15	-	-0.01	-

Banque Scandinave a Luxembourg SA
16 Boulevard Royal, L-2449, Luxembourg

Barclays Diversified Portfolio
14 rue Aldringen L-1118 352 4799 2000

Jupiter Tyndall Global Fund
13 rue Goethe L-1637 Luxembourg

Kleinwort Benson Japanese
14 rue Aldringen Luxembourg

Kleinwort Benson Select Fund
14 Rue Aldringen L-1118 Luxembourg

Latin American Securities Ltd

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

[illegible]

FOREIGN EXCHANGES

More optimism on rate cut

THE DOLLAR edged up slightly against the D-Mark yesterday as dealers appeared a little more optimistic about the prospect of an official interest rate cut by the Bundesbank today, *writes James Blitz.*

There was no indication from the German central bank that it was thinking of reducing the interest rate floor, currently at 6.75 per cent. But German commercial banks appeared optimistic yesterday that there would be an easing, and did not bid for funds aggressively at the established repo rate of 6.80 per cent in the weekly money market operation.

This had an impact on the currency markets, where one London dealer talked of "mild position squaring" by dealers. The dollar closed at DM1.6190 from a previous DM1.6105.

The dollar strengthened more sharply against the yen, as dealers continued to ponder whether Japan would introduce a substantial fiscal stimulus later this year as part of a deal with the US. The dollar closed at Y105.65 from a previous Y104.00.

Mr David Cocker, chief economist at Chemical Bank in London, thinks that the dollar will not fall far this week, whatever the Bundesbank does. He believes that no change in rates would lead to only modest profit-taking on the downside. Cuts in 25 or 50 basis points would push the dollar up modestly.

But Mr Cocker is one of the economists who think that the dollar is heading for a more substantial fall in the next 3 months, possibly as low as DM1.35. In his view, there is little chance of the Federal Reserve tightening policy before the end of the year or of a significant German easing. But more importantly, fund managers are still heavily overweight in dollars. "When we get to the DM1.56 or DM1.55 level, fund managers will seriously take a look at their dollar weightings," he said.

In the European crosses, sterling again dominated events, moving up sharply in the wake of a particularly encouraging monthly monetary report from the UK Treasury. The Treasury remained bullish about prospects for growth saying that recent figures pointed to "very encouraging trends." This helped the pound to rise a full pfennig to a close of DM2.4950.

The performance of other European currencies was mixed. The Belgian franc slipped sharply against the D-Mark at one stage amid new reports of the country's formidable economic problems. The Belgian franc fell to a low of BFr21.7500 from a previous close of BFr21.5300. Some economists spoke of the prospects of the BFr22 level being broken soon.

The French franc was less troubled, closing at FFr3.531 from a previous FFr3.519. The Danish krone was unaffected by a cut in the country's key interest rate by ½ a percentage point. This was another example of how European central banks do not harm their currencies when they ease policy.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Sep 8	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator‡
Dutch Guilder	2.19672	2.14232	-2.46	8.77	-
D-Mark	1.94964	1.90859	-2.11	8.39	-
Spanish Peseta	154.250	155.368	0.72	5.32	-5
Irish Punt	0.808628	0.819155	1.30	[illegible]	-8
Portuguese Escudo	192.854	196.292	[illegible]	4.22	-12
Belgian Franc	40.2123	41.3695	2.88	3.11	-21
French Franc	6.53883	6.71490	2.69	3.30	-23
Danish Krone	7.43679	7.88687	6.06	0.00	-42

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. Divergence indicators are based on 15% band limitations but do not show the indicative values only. Divergence indicators are based on 15% band but do not show the 2.25% band between the Dutch Guilder and D-Mark.

£ IN NEW YORK

STERLING INDEX

CURRENCY RATES

CURRENCY MOVEMENTS

OTHER CURRENCIES

POUND SPOT - FORWARD AGAINST THE POUND

Sep 8	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.5310 - 1.5450	1.5400 - 1.5410	0.40-0.38cpm	3.04	1.07-1.04pm	2.74
Canada	2.0225 - 2.0385	[illegible]	0.31-0.23cpm	1.60	0.60-0.48pm	1.09

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

EURO-CURRENCY INTEREST RATES

EXCHANGE CROSS RATES

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100: Peseta per 100.

FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS

LIFFE EURO SWISS FRANC OPTIONS

LIFFE BUND FUTURES OPTIONS

LIFFE EUROMARK OPTIONS

LIFFE ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS

LIFFE SHORT STERLING OPTIONS

LONDON (LIFFE)

CHICAGO

PHILADELPHIA SE £/$ OPTIONS

PARIS

* Contracts traded on APT. Closing prices shown.

POUND - DOLLAR

FT FOREIGN EXCHANGE RATES

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.5405	1.5366	1.5299	1.5218	1.5062

MONEY MARKETS

Overnight at 20%

THE OVERNIGHT interest rate in the sterling cash market was quoted as high as 20 per cent yesterday after some of the leading players in the market refused to offer bills to the Bank of England at the start of trading, *writes James Blitz.*

There was a lack of liquidity in the market after the Bank of England forecast a comparatively large shortage of £2.35bn. Only £315m of bills were offered in the early round and it was not until the afternoon session that the bulk of the shortage was removed.

UK clearing bank base lending rate 6 per cent from January 26, 1993

Banks and discount houses borrowed £730m via the "late assistance" window at which it is suspected that they pay punitively high interest rates.

Yesterday's difficult conditions appeared to be the result of several factors which are again causing concern to discount house dealers and commercial banks in London.

The shortages in recent months have become very large because of the government's huge sales of gilts to fund its Public Sector Borrowing Requirement. At the same time, one or two UK clearing banks are thought to have built up a substantial share of the sterling bill market in the wake of changes in the Bank of England's reserve requirements in the late 1980s.

Dealers say that this gives them the power to dictate the overnight rate level, depending on the state of their lending positions.

Yesterday's conditions pushed up 3-month money by ⅛ per cent to 5⅞ per cent.

One dealer also said that they contributed to a fall in sterling interest rate futures, with the December contract closing 4 basis points down at 94.42.

By chance, conditions in the German market were not much of a recommendation for the repo system of money management either.

German call money soared a full percentage point to 7.75 per cent after commercial banks bought far fewer funds from the Bundesbank at the prevailing repo rate of 6.80 per cent.

The German market was again locked into the same mentality that dogged it before the last Bundesbank meeting.

Dealers believed that the discount rate would be cut today and preferred to borrow funds through the discount window. There was larger drain of funds from the market than had been expected.

FT LONDON INTERBANK FIXING

(11.00 a.m. Sep 8) 3 months US dollars		6 months US Dollars	
bid 3 1/16	offer 3 3/16	bid 3 5/16	offer 3 7/16

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK — Treasury Bills and Bonds

Lunchtime					
Prime rate	6	One month	2.71	Three year	4.05
Broker loan rate	5	Two month	2.95	Five year	4.62
Fed.funds	3 1/16	Three month	3.01	Seven year	4.83
Fed.funds at intervention	-	Six month	3.15	10-year	5.22
		One year	3.29	30-year	5.85
		Two year	3.78		

Sep 8	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	7.00-7.50	6.75-6.85	6.60-6.75	[illegible]	6.25-6.40	7.75
Paris	7 7/16-7 9/16	7.35-7.60	-	7.15-7.40	-	6.75
Zurich	5-5¼	4⅝-4⅞	-	4⅞-4¼	-	-
Amsterdam	6.62-6.68	[illegible]	-	6.37-6.45	-	-
Tokyo	2⅞-2 13/16	-	-	-	-	-
Milan	9⅜-9¼	9⅜-9 7/16	-	9 5/16-9 7/16	-	-
Brussels	-	11½-12	-	11-11½	-	-
Dublin	6 13/16-6 15/16	6⅞-7	6⅞-7	6 13/16-6 15/16	6⅝-6¾	-

LONDON MONEY RATES

Sep 8	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	17	6¼	6	5 15/16	5 15/16	5¾
Interbank Bid	6	6	5⅞	5⅞	5¾	5⅝
Sterling CDs	-	-	5 13/16	5 13/16	5 13/16	5⅝
Local Authority Deps.	6	6⅛	5⅞	5⅞	5 13/16	-
Local Authority Bonds	-	-	-	-	-	-

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

BASE LENDING RATES

	%		%		%
Adam & Company	6	Cyprus Popular Bank	6	Mount Banking	6
Allied Trust Bank	6	Duncan Lawrie	6	NatWestminster	6
AIB Bank	6	Equatorial Bank plc	6	Nykredit Mortgage Bnk	6.5
●Henry Ansbacher	6	Exeter Bank Limited	7	●Rea Brothers	6
B & C Merchant Bank	13	Financial & Gen Bank	7	* Roxburghe Bank Ltd	6
Bank of Baroda	6	●Robert Fleming & Co	6	Royal Bk of Scotland	6
Banco Bilbao Vizcaya	6	Girobank	6	●Smith & Williamson Secs	6
Bank of Cyprus	6	●Guinness Mahon	6	Standard Chartered	6
Bank of Ireland	6	Habib Bank AG Zurich	6	TSB	6
Bank of India	6	●Hambros Bank	6	●United Bk of Kuwait	6
Bank of Scotland	6	Heritable & Gen Inv Bk	6	Unity Trust Bank Plc	6
Barclays Bank	6	●Hill Samuel	6	Western Trust	6
Brit Bk of Mid East	6	C. Hoare & Co	6	Whiteaway Laidlaw	6
●Brown Shipley	6	Hongkong & Shanghai	6	Wimbledon & Sth West	7
CL Bank Nederland	6	Julian Hodge Bank	6	Yorkshire Bank	6
Citibank NA	6	●Leopold Joseph & Sons	6		
City Merchants Bank	6	Lloyds Bank	6		
Clydesdale Bank	6	Meghraj Bank Ltd	6		
The Co-operative Bank	6	Midland Bank	6		
Coutts & Co	6				
Credit Lyonnais	6				

● Members of British Merchant Banking & Securities Houses Association

DONG AH CONSTRUCTION INDUSTRIAL CO., LTD

US $ 100,000,000

FLOATING RATE NOTES 1997

Notice is hereby given that, in accordance with the provisions of the above mentioned Floating Rate Notes, the rate of interest for the six months period from September 8, 1993 to March 8, 1994 (181 days) has been fixed at 5% per annum.

The interest payable on March 8, 1994 will be US $ 251.39 in respect of each US $ 10,000 Note and US $ 6,284.72 in respect of each US $ 250,000 Note.

Agent Bank

BANQUE INTERNATIONALE A LUXEMBOURG

LEGAL NOTICES

V D U INSTALLATIONS LIMITED - JOINT ADMINISTRATIVE RECEIVERS APPOINTED 23 JUNE 1993

NOTICE IS HEREBY GIVEN, pursuant to section 48(2) of the Insolvency Act 1986, that a meeting of the creditors of the above named company will be held at Bridewell House, 6 Greyfriars Road, Reading, Berkshire RG1 1JG on 22 September 1993 at 10.30 am for the purpose of receiving a report prepared by the Joint Administrative Receivers and if thought fit to establish a committee ("the creditors committee") to exercise the functions conferred on it by or under the Insolvency Act 1986. Proxies to be used at the meeting must be lodged, together with any claim to be made by the creditor at the offices of the Joint Administrative Receivers, S P Holgate and J M Iredale, Coopers & Lybrand, 9 Greyfriars Road, Reading, RG1 1JG no later than 12 noon on 21 September 1993.

Creditors whose claims are wholly secured are not entitled to attend or to be represented at the meeting.

S P Holgate
for the Joint Administrative Receivers
Dated 3 September 1993

LEGAL NOTICES

INSOLVENCY ACT 1986

SOUTH SHORE TRAVEL (SOUTHPORT) LIMITED

WORLD STOCK MARKETS

CANADA

TORONTO

4 pm close September 8

Quotations in cents unless marked $

MONTREAL

4 pm close September 8

INDICES

NEW YORK

DOW JONES

STANDARD AND POOR'S

NEW YORK ACTIVE STOCKS

TRADING ACTIVITY

CANADA

TORONTO

WORLD

M.S. Capital Intl.(1/1/70) $

Euro Top-100 (26/6/90)

**Saturday September 4: Taiwan Weighted Price; Korea Comp Ex.

♥ Subject to official recalculation.

TOKYO - Most Active Stocks

Wednesday, September 8, 1993

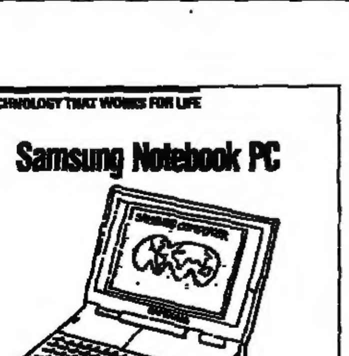
	Stocks Traded	Closing Prices	Change on day
Nikko Kyodo	10.2m	510	-35
Nippon Steel	5.1m	380	-7
Oki Elec	4.8m	655	
Nikkatsu	4.2m	24	-1
Fujitsu	4.1m	844	+5
Toyota Motor	4.0m	1,690	-10
Dainippon Ink	3.4m	544	+4
Sanyo Co	3.0m	2,670	+80
Dai Nippon Print	3.0m	1,710	+20
Tokyo Ink Mfg Co	3.0m	638	+3

4 pm close September 8

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1993 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
14⅝	11½	AAR Corp	0.48	3.7	656	177	13¼	12⅞	13⅛	
29⅞	13¾	A L Labs A	0.18	1.0	37	188	18½	18⅛	18½	+½
68⅛	54⅝	AMP Inc	1.60	2.4	23	1307	65⅞	65½	65¾	
72¾	55½	AMR			16	5807	65	63¼	63⅞	-⅞
3⅞	1¾	ARX			11	281	3⅛	3	3	-⅛
51½	29⅞	ASA	2.00	5.0	28	1648	40	38¾	38¾	
30¾	22⅝	Abbott Lab	0.68	2.6	16	9364	26	25⅛	25¾	-⅜
12⅝	9⅜	Abitibi Pr	0.50	5.4	4	10	9⅜	9¼	9¼	-⅛
15¾	8¼	Acplncpin			42	688	14	13¼	13⅝	-½
36	25½	ACE Ltd	0.40	1.2		68	34¾	34⅜	34⅜	-¾
12	10¾	ACM Gvt In x	0.96	8.6		428	11¼	11⅛	11⅛	
10	9⅛	ACM GvOpp x	0.80	8.2		113	9¾	9⅝	9¾	+⅛
9⅞	8¾	ACM Gvt Sp x	0.80	8.3		708	9⅝	9½	9⅝	+⅛
11⅝	10½	ACM Gvt Se	0.96	8.8		1089	11¼	11⅛	11⅛	-⅛
11⅝	9⅝	ACM Man x	1.08	9.4		383	11½	11¼	11½	+⅛
9⅞	8⅝	ACM Mangd x	0.72	7.8		245	9¼	9⅛	9¼	
12⅝	7¾	Acme Cleve	0.44	5.2	11	481	9	8½	8½	-⅜
9¼	6½	Acme Elect			49	32	6⅞	6⅞	6⅞	-⅛
27⅞	18⅝	Acordia	0.44	1.6	18	2	27¼	27¼	27¼	-¼
16	10⅜	Acuson			32	321	12	11⅝	11⅞	-⅛
21¾	19	Adams Expr	0.48	2.5	0	303	19¾	19⅛	19¼	-⅜
65¾	45½	Ad Micro	3.00	5.2		110	58½	58¼	58	+½
32¾	17⅝	Ad Micro P	3.00	11.0	10	15445	29¼	26	27⅜	-⅛
7¾	5½	Advest Grp	0.16	2.3	12	123	7	6⅞	6⅞	-⅛
24¾	16⅛	Advo Inc	0.08	0.5	18	49	17	16⅝	16¾	-¼
49¾	41⅛	Aegon ADR	1.23	2.6	9	52	48¾	47¾	48	-1⅛
60½	43⅞	Aetna Lf	2.76	4.6	41	2912	59⅞	59¼	59½	-⅜
14½	11½	AHL A	0.26	1.9	28	1582	13⅞	13⅝	13⅞	
34	26⅜	Aflac	0.40	1.2	15	1065	32¾	32	32⅛	-½
22⅛	16¾	Ahmanson	0.88	4.4	8	840	20¼	19⅞	20	
7¾	4	Aileen Inc			5	245	4⅛	3⅞	4	-⅛
45½	24⅞	Air Pr Chem	0.92	2.2	16	761	41⅞	41½	41⅝	

[illegible]



Continued on next page

4 pm close September 8

NYSE COMPOSITE PRICES

1993 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close

Continued from previous page

- S -

1993 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
22	15½	S Anita Rt	1.36	7.8	15	50	17½	17¼	17¼	
20¾	14⅞	SCOR US Cp	0.32	2.0	195	115	15⅝	15½	15⅝	
29¾	20	SPS Techno	1.28	4.6	20	10	27⅞	27¾	27⅞	+⅛
14⅞	12⅞	Sabine Rt	1.74	11.8	10	93	u14⅞	14¾	14¾	
13¾	8⅝	Safecard	0.20	1.7	12	765	12⅛	11⅞	12	-⅜
23½	16⅝	Safeg'd Sc			10	41	21⅛	20¾	21	-⅛
24¾	14⅞	SafetyKln	0.36	2.2	24	1308	16⅞	16	16⅛	+⅛
19⅛	10⅞	Safeway			29	1739	u19¼	18½	18⅞	-⅛
4¾	2	Safeway/W96				451	u4¼	4	4⅛	
55	37½	StJoePaper	0.20	0.4	141	227	50¼	47½	48	-2½
37⅞	31	StJosL&P	1.78	4.7	15	13	37¼	37	37¼	
94	75	St Paul's	2.80	3.1	14	583	91⅛	90⅛	91⅛	+½
11⅛	7⅝	Salant Crp			4	4	8⅝	8¾	8¾	-¼
75¼	39⅞	Sallie Mae	1.20	2.6	10	4637	45⅞	44¼	45⅞	+¼
14¼	13	Salomon Br	0.32	2.3		703	13⅞	13⅝	13⅝	-¼
51⅞	34	SalomonInc	0.64	1.3	12	4435	50¾	49⅝	50¼	+⅛
27¾	23¼	SanDgo G&E	1.48	5.5	14	422	27	26½	26⅞	-⅛
4⅞	3½	SantaFeEDu	0.40	10.7	37	47	3⅞	3¾	3¾	
11⅞	9⅛	SantaFeERs	0.16	1.7	475	1245	9⅞	9⅜	9½	-⅜
40¾	35¾	SantaFePac	2.80	7.6	12	193	38	36⅝	37	-1
19	12¾	SantaFPac	0.10	0.6	11	2753	18	17⅝	18	+¼
31⅛	21	Sara Lee	0.58	2.2	18	13474	26½	26	26¼	+⅛

[illegible]

- T -

[illegible]

- U -

[illegible]

- V -

[illegible]

- W -

[illegible]

- X - Y - Z -

[illegible]

Price data supplied by Telekurs

[illegible]

AMEX COMPOSITE PRICES

4 pm close September 8

[illegible]

4 pm close September 8

NASDAQ NATIONAL MARKET

[illegible]

AMERICA

Sell programs take toll on US markets

Wall Street

HEAVY profit-taking and computerised sell programs continued to take a toll on US stock markets yesterday as investors once again ignored surging bond prices, *writes Patrick Harverson in New York.*

At 1 pm, the Dow Jones Industrial Average was down 29.06 at 3,578.04. The more broadly based Standard & Poor's 500 was 4.08 lower at 454.44, while the Amex composite was down 5.24 at 451.04, and the Nasdaq composite down 14.07 at 725.28. Trading volume on the NYSE was 157m shares by 1 pm.

Prices opened lower across the board as the markets failed to rally from Tuesday's losses, when a late surge of sell programs sent the Dow tumbling more than 26 points. Although stocks just about held their own for the first two and a half hours of trading, just before midday another round of sell programs, and heavy profit-taking in all markets, prompted sizeable losses.

The day's economic news – the publication of the Federal Reserve's Beige Book report on the economy – had little impact upon sentiment. The Beige Book reported that the economy grew at a "slow to moderate" pace in late July and August, little changed from the previous reporting period.

Investors also ignored fresh gains in the rallying Treasury market, where longer-dated securities rose sharply, pushing the yield on the benchmark 30-year government bond down to a new historic low of 5.858 per cent.

Among individual sectors, drug and healthcare stocks, which rallied last week when President Bill Clinton backed down from his original proposals to impose price controls on drug and health services companies, took a beating. Pfizer fell $1⅛ to $61⅞, Merck gave up $⅞ at $31⅜, Johnson&Johnson fell $1⅛ to $38¼ and Schering-Plough eased $⅛ to $61.

Warner-Lambert fell $2 to $66⅞, undermined by a ratings downgrade from brokerage house Hambrecht & Quist.

Healthcare stocks on the Nasdaq market were also sharply lower. US Healthcare fell $2⅞ to $43⅛, Pacificare Health dropped $4⅞ to $36, and Oxford Health Plans plunged $6 to $64½.

Baxter International fell $3⅞ to $22¼ in volume of 3m shares after the company warned that its third quarter earnings would come in below those reported a year ago.

Baxter International also announced plans to freeze employee salaries and cut senior managers' pay by as much as 25 per cent.

Selected bank stocks remained a rare bright spot, buoyed by falling interest rates and renewed interest in the recently-neglected sector. First Chicago firmed $⅛ to $45⅞, Citicorp added $⅝ at $33⅜ and BankAmerica put on $⅛ at $46⅞.

Nasdaq technology stocks were mostly lower, with Microsoft down $1 at $76⅜ and Intel down $1⅞ at $60⅞.

Canada

TORONTO fell back further after Tuesday's sharp losses, with the TSE 300 composite index losing 77.18 to 3,946.56 at midsession. Volume was moderate at 41.43m shares valued at C$477.73m.

Declining issues outpaced advances by 541 to 109, with 250 issues steady.

SOUTH AFRICA

A FURTHER fall in the precious metal's price left gold shares weaker, the index falling 113 to 1,476. Industrials declined 54 to 4,526 and the overall index 108 to 3,804. De Beers shed R1.75 to R82.75 and Anglos R6.50 to R125.50.

EUROPE

Senior bourses unable to make much headway

SENIOR bourses drifted yesterday, *writes Our Markets Staff.*

FRANKFURT saw a weak start as the options and futures market dragged equities to a DAX index intraday low of 1,865, before recovering just before the close to 1,865.29.

Traders reported that selling accelerated when the DAX broke a support level at 1,880, although they added that the market had been looking overbought and was due for a correction. Turnover improved slightly to DM7bn from Tuesday's low DM6.3bn.

In an absence of corporate news, VW again attracted attention, particularly given conflicting statements from the group's senior management. The shares added DM1.40 to DM362.90 after Mr Ferdinand Piëch said that a dividend would probably be resumed in 1994.

PARIS fell back modestly, the CAC-40 index shedding 7.85 to 2,129.44 in turnover of FFr3.2bn.

A further batch of interim results affected share performances: CarnaudMetalbox lost FFr10.50 to FFr198.50 after reporting that it saw no improvement in profits for the rest of the year, and Valeo gained FFr20 to FFr986 reflecting satisfaction with first half figures. Mr Bob Barber of James Capel, reiterating his sell recommendation, noted that it was difficult to believe Valeo shares could outperform the market "at a time when the prospects for companies in the sector are generally being regarded with growing caution and ahead of what we believe will be a downward reaction in the price of automotive shares".

FT-SE Actuaries Share Indices

September 8 — THE EUROPEAN SERIES

Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1270.50	1269.08	1268.83	1271.84	1272.51	1270.89	1266.71	1268.53
FT-SE Eurotrack 200	1361.79	1361.28	1361.07	1365.31	1368.39	1366.54	1361.97	1363.68

	Sep 7	Sep 6	Sep 3	Sep 2	Sep 1
FT-SE Eurotrack 100	1277.38	1284.01	1293.60	1302.75	1305.63
FT-SE Eurotrack 200	1365.81	1371.90	1384.27	1385.48	1385.51

Base value 1000 (26/10/90) High/day: 100 - 1272.96; 200 - 1368.90 Low/day: 100 - 1265.87 200 - 1358.22.

AMSTERDAM experienced a further correction, with the CBS Tendency index falling 2.5 or 2 per cent at 123.9 in good turnover.

The market had a second look at Ahold's results and marked the shares down Fl 3.50 at Fl 87.70, while a fall in Grolsch of Fl 1.70 to Fl 39.30 on disappointment with its interims, dragged Heineken off Fl 4.10 to Fl 182.30. Bols Wessanen was down Fl 1.50 to Fl 42.20 ahead of today's results.

MILAN remained on a downward track, not helped by program selling ahead of tomorrow's options expiry, and the Comit index shed 15.57 or 2.6 per cent to 594.18.

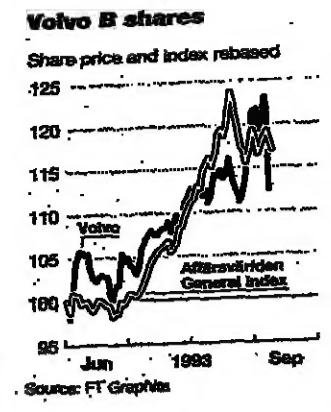
Bank privatisation candidates came under pressure following the news that IRI, the state holding company, planned to sell them off by public offering and not through a competitive tender. BCI shed L234 or 4.4 per cent to L5,126 while Credito Italiano was L25 easier at L2,700.

Ferruzzi, however, shrugged off local press reports that details of its rescue plan would be delayed until the end of this month. The shares continued their recent advance, rising L41 or 10 per cent to L452.75.

ZURICH spent an uncertain session, with investors mixed on the prospects for lower interest rates and the SMI index dipped 5.5 to 2,397.9.

Nestlé registered shares were steady at SFr1,072 in active trading with analysts expecting a moderate growth in half year profits to be announced today.

STOCKHOLM retreated further as Volvo Bs lost another SKr11 to SKr447. The Affärsvärlden general index declined 12.3 to 1,272.1 in turnover of SKr1.3bn.



Source: FT Graphite

COPENHAGEN took little notice of a 0.5 point cut in the central bank's key 14 day rate to 10 per cent with analysts suggesting that further cuts would be needed before the present, positive undertone turned into a rally. The KFX index shed 0.9 to 98.95 in moderate turnover of DKr601m.

VIENNA fell 4 per cent amid further profit-taking after the market's strong run and on renewed concern ahead of results due shortly from OMV. The ATX index tumbled 41.36 to 970.81.

OMV shed Sch42 to Sch755, after a day's low of Sch735, as local press comment suggested that the group faced heavy losses and could be forced to restructure its chemicals operations.

ATHENS bounced back after Tuesday's slide as the prospects of an early election receded. The general index which was 2 per cent higher for much of the day received a late fillip which took it 40.25 or 4.9 per cent higher to 861.18 at the close.

ISTANBUL continued its record-setting mood, in spite of some late profit-taking after an early rally which saw the composite index over the 13,000 level. The index finished 198.4 or 1.6 per cent higher at 12,725, for a 9.2 per cent rise since the start of the week.

ASIA PACIFIC

Nikkei cautious as Hong Kong sets record

Tokyo

INCREASING caution following a spate of downward corporate earnings revisions depressed activity, and the Nikkei average lost marginal ground, *writes Emiko Terazono in Tokyo.*

The 225-issue index ended 43.91 easier at 20,918.19, its third consecutive decline. Small-lot selling by individuals, investment trusts and securities houses pulled the index down.

Investors reacted to Tuesday's announcement by Nippon Steel, which now expects to fall into a loss for the current business year.

The index slipped to the day's low of 20,816.78 in the morning. However, afternoon support from arbitrage-linked buying pushed it up to the session's high of 20,996.50.

Volume totalled 298m shares, against Tuesday's 251m. Foreign investors, who had previously been active buyers, held the sidelines.

Declines outscored rises by 586 to 391, with 193 issues unchanged.

The Topix index of all first section stocks lost 6.96 at 1,682.82, but in London the ISE/Nikkei 50 index firmed 1.09 to 1,268.57.

Reports that Nikko Kyodo, a leading mining and oil refiner, had decided to liquidate its US subsidiaries depressed sentiment. The company expects to post losses of Y90bn due to the liquidation.

Nikko Kyodo was the most active issue of the day, falling Y35 to Y510. Other oil issues fared poorly, with Mitsubishi Oil shedding Y20 to Y1,030 and Showa Shell Sekiyu Y10 to Y1,260.

Steel companies were weak on the unexpected downward earnings revision by Nippon Steel, announced on Tuesday. The company said it would skip its interim dividend and would post a pre-tax loss of Y15bn for the current year to next March.

Other leading steel issues, including Kobe Steel, NKK, Kawasaki Steel and Sumitomo Metal Industries, are scheduled to make similar announcements tomorrow.

Nippon Steel retreated Y7 to Y360 and Kobe Steel declined Y9 to Y308.

Nippon Telegraph and Telephone fell Y11,000 to Y830,000, declining for the fifth trading day in a row.

The company said it would cut its long distance call rates, and it revised down its revenue for the current year by Y100bn.

Ink and printing concerns were higher. Dainippon Ink moved up Y4 to Y544 and Dai Nippon Printing gained Y20 at Y1,710.

In Osaka, the OSE average receded 47.09 to 22,871.14 in volume of 38m shares. Trading remained inactive ahead of Friday's settlements for September futures and options contracts.

Roundup

MIXED messages emerged from Pacific Rim markets.

HONG KONG investors decided that they had been marking time for long enough and a wave of afternoon buying took the Hang Seng index up 60.42 to a record close of 7,607.13.

The rise came as Sino-British friction took a back seat to comments by Mr Zhu Rongji, the Chinese vice-premier, that the country's economic growth was likely to be 13 per cent this year, in spite of the current austerity policy.

Hopewell, the most active issue, advanced 20 cents to HK$5.50 and was followed by Jardine Matheson, which gained HK$2.50 at HK$65. Hong Kong Electric moved ahead 60 cents to HK$21.40.

MANILA was helped by heavy foreign buying of Manila Electric, and the composite index rose 4.28 to 1,886.28.

NEW ZEALAND benefited from better than expected Air New Zealand results, enabling the NZSE-40 capital index to overcome early weakness and close 4.56 higher at 2,000.35. Air New Zealand rose 13 cents to a year's peak of NZ$2.75.

AUSTRALIA took its lead from the sharp falls on Wall Street and in the bullion price, and shares were marked lower from the opening. Some support emerged for blue chips at noon before investors again took profits towards the close. The All Ordinaries index finished 28.3, or 1.4 per cent, lower at 1,939.5, while the golds marker ended 137.8, or 7 per cent, down at 1,897.2.

Among gold stocks, North Flinders Mines shed 70 cents to A$12.50 and Plutonic Resources fell 31 cents to A$6.60.

SINGAPORE was lower for the second consecutive day as profits were again taken after the recent sharp rises. The Straits Times Industrial index fell 7.74 to 2,028.96.

Foreign demand fuels Brazil

THERE were good performances from Latin American markets, *Reuter reports.*

BRAZILIAN equities were strong at midsession, the Bovespa index adding 471 at 12,083 on foreign demand.

Equities have been attracting interest after the government announced its intention to tackle inflation, currently at a monthly level of 34 per cent, by adopting fiscal reform measures and accelerating the privatisation programme.

MEXICO's IPC index was slightly weaker on profit-taking, off 2.18 at 1,947.83, after Tuesday's record high, largely due to strength in Telefonos.

BOGOTA also set an all-time peak on Tuesday, the IBB index rising 3.45 to 575.37.

BUENOS AIRES encountered profit-taking on Tuesday, ending six consecutive days of gains. The Merval index shed 10.8 to 477.93.

Strong week for Latin American markets

By John Pitt

LATIN America's emerging markets performed well last week, with Colombia and Venezuela in particular coming to the fore, while there were also good rises in the Philippines, Malaysia and Portugal.

US funds have been flowing into Latin America recently, seeking out underperforming markets and attracted by the general recovery in economic fundamentals.

Mr Federico Laffan of Latin American Securities comments that Colombia has been driven higher recently by a flow of funds from large US institutions. As a consequence turnover has risen from around $2.5m a day in the first half of the year to some $4m.

Foreign money, he adds, has been attracted to Colombia since equities there have lagged behind other regional markets, while prices are also cheap.

Inflation has been coming down, and GDP growth is forecast for 1993 at between 4 to 4.5 per cent, after 3 per cent in 1992, when the economy was affected by a severe drought.

Among the smaller European bourses, Portugal has enjoyed a rally since May, coinciding with the devaluation of the escudo. According to the data provided by the IFC, an affiliate of the World Bank, the market has shown a 43 per cent improvement on the year to date in dollar terms, making it the fourth best performer in the list.

Mr John Ferreira of Carnegie International says initial gains in the market were led by US investors, attracted by lower interest rates and good earnings prospects from 1995.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms: Sep 03 1993	Dollar terms: % Change over week	Dollar terms: % Change on Dec '92	Local currency terms: Sep 03 1993	Local currency terms: % Change over week	Local currency terms: % Change on Dec '92
Latin America							
Argentina	(11)	714.53	+5.1	+23.2	438,451.77	+5.1	+23.4
Brazil	(44)	222.29	+5.9	+77.6	30,328,512.55	+15.1	+1,354.3
Chile	(20)	434.85	+0.8	+3.9	711.19	+0.6	+10.9
Colombia[1]	(6)	479.78	+7.0	+12.8	685.43	+6.8	+12.1
Mexico	(56)	735.54	-0.2	+8.8	987.15	-0.1	+8.7
Venezuela[4]	(6)	485.99	6.8	-6.5	1,049.30	+7.6	+12.4
East Asia							
South Korea[3]	(130)	93.30	-0.7	-5.0	99.01	-0.8	-2.7
Philippines	(11)	183.95	+4.8	+37.8	245.54	+10.5	+51.9
Taiwan, China[3]	(76)	79.81	-2.2	+8.2	79.96	-2.2	+14.7
South Asia							
India[1]	(61)	90.22	-0.5	-3.7	99.83	-0.4	+4.6
Indonesia[5]	(31)	93.86	-0.1	+59.9	107.17	+0.1	+62.9
Malaysia	(61)	241.03	+4.6	+47.4	226.72	+4.7	+43.7
Pakistan[7]	(8)	218.67	-1.0	+9.2	295.44	-1.0	+27.4
Thailand	(52)	275.45	+3.5	+19.6	274.96	+3.5	+17.9
Euro/Mid East							
Greece	(17)	246.12	-0.9	+26.0	382.78	-2.7	+34.4
Jordan	(5)	155.53	-0.6	+33.1	221.73	-0.6	+33.7
Portugal	(16)	110.26	+4.0	+42.9	126.73	+2.2	+62.6
Turkey[8]	(31)	138.92	-2.9	+108.7	759.67	-2.2	+163.3

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Jan 5 1992; (3)Jan 3 1992; (4)Jan 4 1991; (5)Nov 6 1992; (6)Dec 28 1992; (7)Mar 1 1991; (8)Aug 4 1989

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS — Figures in parentheses show number of lines of stock	TUESDAY SEPTEMBER 7 1993: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY SEPTEMBER 6 1993: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 1993 High	1993 Low	Year ago (approx)
Australia (69)	144.59	+0.9	138.97	95.05	121.07	147.72	+0.4	3.46	143.24	139.08	94.35	120.05	147.20	148.84	117.39	125.36
Austria (17)	179.39	−0.6	172.42	117.93	150.20	150.38	−0.4	1.29	180.43	175.18	118.85	151.22	150.99	180.43	131.16	158.82
Belgium (42)	151.43	−0.3	145.55	99.54	126.79	130.14	−0.4	4.40	151.89	147.47	100.04	127.29	130.72	156.76	131.19	145.67
Canada (107)	124.30	−2.2	119.47	81.71	104.07	119.17	−2.4	2.85	127.03	123.34	83.67	106.46	122.16	130.38	111.41	126.82
Denmark (32)	232.42	+0.4	223.39	152.80	194.60	209.82	+0.4	1.08	231.42	224.69	152.43	193.95	209.07	232.42	185.11	220.09
Finland (23)	108.01	+0.7	103.82	71.01	90.44	130.06	+0.9	0.81	107.26	104.14	70.65	89.89	128.87	118.56	65.50	53.66
France (97)	169.50	−0.6	162.92	111.42	141.91	150.76	−0.8	3.06	170.50	165.54	112.30	142.88	151.98	170.50	142.72	165.26
Germany (60)	127.39	−1.0	122.44	83.76	106.66	106.66	−1.1	1.97	128.67	124.93	84.76	107.83	107.83	128.77	101.59	121.47
Hong Kong (55)	298.35	+0.5	286.76	196.13	249.82	296.57	+0.4	3.33	296.97	288.33	195.60	248.89	295.27	301.61	218.82	234.14
Ireland (15)	172.34	−0.4	165.65	113.30	144.30	168.76	−0.7	3.31	173.06	168.02	113.99	145.03	169.99	173.06	129.28	158.91
Italy (70)	75.45	−2.6	72.52	49.60	63.17	88.26	−2.1	1.85	77.42	75.17	50.99	64.88	90.14	78.93	53.78	59.43
Japan (470)	161.46	−0.2	155.19	106.15	135.21	106.15	−0.4	0.78	161.78	157.08	106.56	135.60	106.56	165.91	100.75	113.72
Malaysia (69)	410.47	+0.4	394.53	269.83	343.68	402.65	+0.4	1.72	408.99	397.09	269.37	342.75	400.95	410.47	251.66	240.00
Mexico (19)	1758.01	−0.1	1689.73	1155.72	1471.97	5978.74	−0.2	0.82	1760.32	1709.13	1159.46	1475.28	5989.49	1764.86	1410.30	1304.20
Netherland (24)	186.58	−0.3	179.33	122.66	156.23	153.88	−0.4	3.52	187.18	181.74	123.29	156.88	154.46	187.18	150.39	167.16
New Zealand (13)	61.20	+0.8	58.82	40.23	51.24	59.18	+0.1	3.77	60.70	58.93	39.98	50.87	59.10	62.98	40.56	42.22
Norway (22)	175.84	−0.7	169.01	115.60	147.24	168.44	−0.1	1.57	177.15	172.00	116.69	148.47	168.56	177.31	137.71	143.38
Singapore (38)	290.53	+0.0	279.25	191.00	243.26	214.62	+0.1	1.61	290.46	282.01	191.32	243.42	214.50	290.53	207.04	193.92
South Africa (60)	183.41	−2.7	176.28	120.57	153.56	192.62	−1.3	2.69	188.44	182.96	124.12	157.92	195.23	215.29	144.72	182.00
Spain (43)	140.45	+0.7	135.00	92.34	117.60	139.76	+0.7	4.08	139.43	135.38	91.84	116.85	138.85	140.45	115.23	145.19
Sweden (36)	190.21	−0.6	182.82	125.04	159.26	222.80	−0.6	1.51	191.35	185.79	126.04	160.37	224.14	196.23	149.70	177.82
Switzerland (50)	137.18	+0.6	131.85	90.19	114.88	120.51	+0.4	1.80	136.41	132.45	89.86	114.34	120.05	138.04	108.91	117.73
United Kingdom (218)	191.03	+0.4	183.61	125.57	159.94	183.61	−0.6	3.82	190.29	184.75	125.32	159.46	184.75	191.03	162.00	184.72
USA (520)	187.43	−0.6	180.15	123.22	156.94	187.43	−0.6	2.73	188.57	183.08	124.21	158.04	188.57	188.40	175.38	168.91
Europe (749)	158.93	−0.2	152.76	104.48	133.08	146.82	−0.6	3.05	159.19	154.56	104.85	133.42	147.72	159.19	133.92	149.62
Nordic (113)	180.10	−0.2	173.10	118.40	150.79	184.35	−0.2	1.33	180.49	175.24	118.88	151.26	184.66	183.23	142.13	162.20
Pacific Basin (714)	165.44	−0.1	159.01	108.76	138.52	113.62	−0.3	1.04	165.62	160.80	109.09	138.80	113.96	168.80	105.89	117.62
Euro-Pacific (1463)	162.65	−0.1	156.33	106.92	136.18	127.32	−0.4	1.84	162.86	158.13	107.26	136.48	127.87	162.86	117.26	130.56
North America (627)	183.51	−0.7	176.38	120.65	153.68	182.79	−0.7	2.74	184.74	179.37	121.70	154.85	184.04	185.59	171.51	166.27
Europe Ex. UK (531)	138.69	−0.5	133.31	91.19	116.15	125.47	−0.6	2.53	139.43	135.38	91.86	116.88	126.23	139.43	112.51	128.24
Pacific Ex. Japan (244)	204.97	+0.6	197.01	134.77	171.64	191.41	+0.4	2.96	203.81	197.89	134.27	170.83	190.72	204.97	152.70	155.88
World Ex. US (1649)	162.54	−0.2	156.23	106.86	136.10	129.28	−0.5	1.87	162.89	158.16	107.30	136.52	129.91	162.89	118.51	131.66
World Ex. UK (1951)	167.76	−0.4	161.24	110.29	140.48	143.73	−0.5	2.01	168.50	163.60	110.99	141.23	144.47	168.50	134.22	139.30
World Ex. So. Af. (2109)	169.85	−0.3	163.26	111.67	142.23	146.93	−0.5	2.18	170.43	165.47	112.27	142.84	147.70	170.43	137.29	143.06
World Ex. Japan (1699)	176.35	−0.4	169.50	115.94	147.68	170.39	−0.6	2.84	177.11	171.96	116.67	148.46	171.40	177.11	157.47	160.21
The World Index (2169)	169.81	−0.4	163.22	111.64	142.19	147.35	−0.5	2.19	170.42	165.47	112.26	142.84	148.13	170.42	137.32	143.23

Latest prices were unavailable for this edition.